



ORDINANCE NO.

**AN ORDINANCE OF THE CITY OF SAN JOSE AMENDING VARIOUS SECTIONS OF CHAPTERS 3.32 AND 3.36 OF TITLE 3 OF THE SAN JOSE MUNICIPAL CODE TO CLARIFY THE CITY CHARTER SUPERSEDES THE CITY OF SAN JOSE POLICE AND FIRE RETIREMENT PLAN IN EVENT OF CONFLICT, DISCONTINUE THE SUPPLEMENTAL RETIREE BENEFIT RESERVE, AND CLARIFY ACTUARIAL SOUNDNESS IS DETERMINED CONSISTENT WITH THE CALIFORNIA CONSTITUTION, TO BE EFFECTIVE MARCH 1, 2013**

**WHEREAS**, the City of San José ("City") wishes to further implement the provisions of Article XV-A of the City's Charter and clarify that in the event of conflict between the provisions of Article XV-A of the City's Charter and the City Police and Fire Retirement Plan, the City's Charter controls; and

**WHEREAS**, the City wishes to discontinue use of the Supplemental Retiree Benefit Reserve; and

**WHEREAS**, the City wishes to clarify that the actuarial soundness of the City Police and Fire Retirement Plan is determined in a manner consistent with Article XVI, Section 17 of the California Constitution (the "1992 California Pension Protection Act");

**NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF SAN JOSE:**

**SECTION 1.** Section 3.32.110 of Chapter 3.32 of Title 3 of the San José Municipal Code is amended to read as follows:

**3.32.010 Established - Name - Membership**

- A. There is hereby continued, maintained and administered, as provided in this Chapter 3.32, a retirement plan for officers and employees receiving a monthly compensation for service as members of the police or fire department of the city, to be known as the "police and fire department retirement plan." All officers and employees shall be required to be members of said retirement plan.
- B. Under the City Council's authority pursuant to Article XV, Section 1500 of the City Charter, the provisions of Article XV-A of the City Charter are hereby implemented into the San José Municipal Code. To the extent there is any conflict between Article XV-A of the City of San José's Charter and the provisions of the police and fire department retirement plan, Article XV-A will supersede any conflicting provision in the police and fire department retirement plan, except as provided in Section 3.32.300.A.2 and 3.32.320.B.

**SECTION 2.** Section 3.32.300 of Chapter 32 of Title 3 of the San José Municipal Code is amended to read as follows:

**3.32.300 Contributions**

- A. For the purpose of establishing and maintaining the retirement fund on a reserve basis, the city council shall make provision in the budget each fiscal year, beginning with the fiscal year December 1, 1946 to November 30, 1947, for the payment by the director of finance monthly into said fund of an amount equal to eight percent of the monthly payroll of all such members of the police department and fire department as the city's contribution, and the director of finance shall deduct three percent of the monthly pay from the salary of each member of the plan from and after the first day of October, 1946, as the contribution of the individual members thereof. Within six months after the effective date of

Ordinance 3254, adopted October 21, 1946, and at least every five years thereafter, the board of administration shall cause to be made an actuarial investigation into the mortality, service and compensation experiences of the members and beneficiaries, and shall further cause an actuarial valuation of the assets and liabilities of the retirement plan, and upon the basis of such investigation and valuation shall:

1. Adopt for the retirement plan such mortality, annuity, service and other tables as may be deemed necessary;
  2. In order to make said retirement plan actuarially sound in a manner consistent with Article XVI, Section 17 of the California Constitution (the "1992 California Pension Protection Act"), revise or change the rates of contributions by members on the basis of such actuarial investigation and such mortality, annuity, service and other tables, but at all times maintaining the eight percent and three percent ratio of contributions on behalf of the city and the members of the plan as set forth in this section.
- B. Every member of the police department or fire department shall be deemed to consent and agree to the deductions from salary or compensation as provided herein, and payments less such deductions shall be a full and complete discharge and acquittance of all claims and demands whatsoever for all services rendered by such employees during the period covered by such payment except the right to the benefits to which they shall be entitled under the provisions hereof.
- C. The said deductions from salary or compensation shall continue until membership ceases or until the member retires on a retirement allowance.

**SECTION 3.** Section 3.32.320 of Chapter 32 of Title 3 of the San José Municipal Code is amended to read as follows:

**3.32.320 Investment of Funds - Conditions and Limitations**

The board shall invest and reinvest the moneys in the retirement fund in accordance with the following standards:

- A. The assets of the retirement fund are trust funds and shall be held for the exclusive purposes of providing benefits to members of the plan and their beneficiaries and defraying reasonable expenses of administering the plan.
- B. The board shall discharge its duties with respect to the plan solely in the interest of, and for the exclusive purposes of providing benefits to, members of the plan and their beneficiaries, maintaining the actuarial soundness of the plan in a manner consistent with Article XVI, Section 17 of the California Constitution (the "1992 California Pension Protection Act"), and defraying reasonable expenses of administering the plan. The board's duty to the members and their beneficiaries shall take precedence over any other duty.
- C. The board shall discharge its duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims.
- D. The board shall diversify the investments of the plan so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

**SECTION 4.** Section 3.36.010 of Chapter 36 of Title 3 of the San José Municipal Code is amended to read as follows:

**3.36.010 Establishment - Name - Scope**

- A. There is hereby established a retirement plan for all persons, hereinafter in this chapter specified, who may become members thereof pursuant to the provisions of this Chapter 3.36. This plan shall be known as the "1961 police and fire department retirement plan," and includes all provisions of this chapter.
- B. The 1961 police and fire department retirement plan is established as a qualified governmental defined benefit plan pursuant to Sections 401(a) and 414(d) of the Internal Revenue Code or such other provision of the Internal Revenue Code as applicable and applicable treasury regulations and other guidance of the Internal Revenue Service. The board shall be authorized to adopt rules and regulations which are appropriate or necessary to maintain the qualified status of the plan.
- C. Under the City Council's authority pursuant to Article XV, Section 1500 of the City Charter, the provisions of Article XV-A of the City Charter are hereby implemented into the San José Municipal Code. To the extent there is any conflict between Article XV-A of the City of San José's Charter and the provisions of the 1961 police and fire retirement plan, Article XV-A will supersede any conflicting provision in the 1961 police and fire retirement plan, except as provided in Section 3.36.410, 3.36.540.B and 3.36.1550 C and D.

**SECTION 5.** Section 3.36.410 of Chapter 3.36 of Title 3 of the San José Municipal Code is amended to read as follows:

**3.36.410 Mortality, Service and Other Tables - Revision of Rates of Contribution**

Upon the basis of any or all of such investigations, evaluations and determinations, the board shall adopt such mortality, service and other tables as may be necessary, and shall fix and from time to time change the rates of monthly contribution required of members and of the city as may be necessary to make this system at all times actuarially sound in a manner consistent with Article XVI, Section 17 of the California Constitution (the "1992 California Pension Protection Act") and to provide the benefits provided for in this retirement plan; provided that, as may be otherwise provided elsewhere in this chapter, the proportionate share of contributions on behalf of the city shall at all times be in the ratio of three to eight (3:8).

**SECTION 6.** Section 3.36.540 of Chapter 3.36 of Title 3 of the San José Municipal Code is amended to read as follows:

**3.36.540 Investment of Funds - Conditions and Limitations**

The board shall invest and reinvest the moneys in the retirement fund in accordance with the following standards:

- A. The assets of the retirement plan are trust funds and shall be held for the exclusive purposes of providing benefits to members of the plan and their beneficiaries and defraying reasonable expenses of administering the plan. The assets of the retirement plan must not revert, and no contributions shall be permitted to be returned to the employers, except as permitted by Revenue Ruling 91-4.
- B. The board shall discharge its duties with respect to the plan solely in the interest of, and for the exclusive purposes of providing benefits to, members of the plan and their beneficiaries, maintaining the actuarial soundness of the plan in a

manner consistent with Article XVI, Section 17 of the California Constitution (the "1992 California Pension Protection Act"), and defraying reasonable expenses of administering the plan. The board's duty to the members and their beneficiaries shall take precedence over any other duty.

- C. The board shall discharge its duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims.
- D. The board shall diversify the investments of the plan so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances, it is clearly prudent not to do so.
- E. The retirement plan may participate under Section 401(a)(24) of the Internal Revenue Code in a qualified group trust that meets the requirements of Section 401(a) of the Internal Revenue Code in accordance with Revenue Ruling 81-100, as amended by Revenue Ruling 2004-67.

**SECTION 7.** Section 3.36.580 of Chapter 3.36 of Title 3 of the San José Municipal Code is hereby repealed.



RD:EJM  
1-2-13

SECTION 8. The provisions of this Ordinance shall be effective on March 1, 2013.

PASSED FOR PUBLICATION of title this \_\_\_\_\_ day of \_\_\_\_\_, 2013, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

\_\_\_\_\_  
CHUCK REED  
Mayor

ATTEST:

\_\_\_\_\_  
TONI J. TABER, CMC  
Acting City Clerk

The foregoing instrument is  
a correct copy of the original  
on file in this office.

Attest:

TONI J. TABER  
Acting City Clerk  
Acting City Clerk of the City of San Jose  
County of Santa Clara, State of California

By \_\_\_\_\_ Deputy

933811\_4.DOC  
Council Agenda: 1-15-13  
Item No.: 3.5

GURZA000769





Classic Values, Innovative Advice

February 8, 2012

**VIA ELECTRONIC MAIL**

Mr. Russell Crosby  
Director of Retirement Services  
Federated City Employees' Retirement System  
1737 North 1<sup>st</sup> Street, Suite 580  
San Jose, California 95112

**Re: 5-Year Budget Projections for Federated**

Dear Russell:

As requested for purposes of City budget projections, we have estimated the future contributions expected to be required of the City of San Jose to the City of San Jose Federated Employees' Retirement System (Federated Pension) and the Federated Retiree Health Care Plan (Federated OPEB) for the next five years. The table below summarizes our estimated contributions assuming City contributions are made throughout the fiscal year.

City of San Jose Federated Employees' Retirement System (Dollar amounts in millions)							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2013	240.2	106.7	44.4%	18.9	7.9%	125.6	52.3%
2014	248.0	116.4	46.9%	41.8	16.8%	158.2	63.7%
2015	256.1	122.8	48.0%	44.6	17.4%	167.4	65.4%
2016	264.4	122.5	46.3%	46.3	17.5%	168.8	63.8%
2017	273.0	123.8	45.4%	47.8	17.5%	171.6	62.9%

Please note that these projections are based on the June 30, 2011 Actuarial Valuations for the Plans, and assume that all assumptions were exactly met since June 30, 2011 and are exactly met each and every year into the future. In reality, experience will deviate from the assumptions with the expectation that overall favorable deviations will be offset by unfavorable deviations over time. Finally, we have not adjusted the projections for any events, transactions or experience, and including investment returns, after June 30, 2011. Please refer to the valuation reports for a description of the plan provisions, a summary of the data, and a summary of the methods and assumptions used in each of the valuations.

Also as requested, we have attached 20-year projections of City pension contributions.

We hereby certify that, to the best of our knowledge, this letter and its contents, which are work products of Cheiron, Inc., are complete and accurate and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which

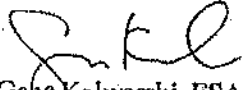


Mr. Russell Crosby  
February 8, 2012  
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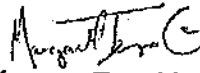
are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

These projections were prepared exclusively for the City of San Jose for the purpose of budget projections. These projections are not intended to benefit any third party. If you have any questions about this analysis, please let us know.

Sincerely,  
Cheiron



Gehe Kalwarski, FSA, EA, MAAA  
Principal Consulting Actuary



Margaret Tempkin, FSA, EA, MAAA  
Principal Consulting Actuary

Attachment

cc: Bill Hallmark  
Carmen Racy-Choy  
Anne Harper

**CITY OF SAN JOSE FEDERATED EMPLOYEES' RETIREMENT SYSTEM  
20-YEAR PROJECTED PENSION CONTRIBUTIONS**

<b>City of San Jose Federated Employees Retirement System 20-Year Projections of City Pension Contributions</b>		
<b>Fiscal Year Ending</b>	<b>Projected City Contribution Amount (Middle of Year)</b>	<b>Projected City Contribution Rate (% of Payroll)</b>
2012	\$ 90,275,000	28.3%
2013	\$ 106,744,000	44.5%
2014	\$ 116,387,000	46.9%
2015	\$ 122,835,000	48.0%
2016	\$ 122,450,000	46.3%
2017	\$ 123,833,000	45.4%
2018	\$ 128,048,000	45.4%
2019	\$ 132,385,000	45.5%
2020	\$ 136,861,000	45.6%
2021	\$ 141,478,000	45.6%
2022	\$ 146,238,000	45.7%
2023	\$ 151,143,000	45.7%
2024	\$ 156,197,000	45.7%
2025	\$ 161,413,000	45.8%
2026	\$ 166,799,000	45.8%
2027	\$ 172,365,000	45.9%
2028	\$ 178,118,000	45.9%
2029	\$ 184,067,000	45.9%
2030	\$ 190,218,000	46.0%
2031	\$ 196,580,000	46.0%
2032	\$ 204,432,000	46.4%

*Based on 6/30/11 actuarial valuation*

**EXHIBIT 57**



Classic Values, Innovative Advice

February 21, 2012

**VIA ELECTRONIC MAIL**

Mr. Russell Crosby, Director of Retirement Services  
City of San Jose  
Police & Fire Department Retirement Plan  
1737 North 1<sup>st</sup> Street, Suite 580  
San Jose, California 95112

**Re: 5-Year Budget Projections for Police & Fire**

Dear Russell:

As requested, based on our recently completed June 30, 2011 valuations, we have estimated the future contributions expected to be required of the City of San Jose to the City of San Jose Police & Fire Department Retirement Plan (Pension Plan) and the Police & Fire Department Retiree Medical and Dental Insurance Plan (OPEB Plan) for the next five years. The table below summarizes our estimated contributions assuming City contributions are made throughout the fiscal year and that all assumptions in the valuations are exactly realized each year, since June 30, 2011. Please refer to those reports for a description of the plan provisions, a summary of the data, and a summary of the methods and assumptions used in each of the valuations.

City of San Jose Police & Fire Department Plans Projected City Contributions* (Dollar amounts in millions)							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2013	190.7	110.1	57.7%	15.5	8.1%	125.6	65.8%
2014	190.7	122.6	64.3%	18.0	9.5%	140.6	73.8%
2015	197.4	131.1	66.4%	20.5	10.4%	151.6	76.8%
2016	204.3	129.1	63.2%	22.2	10.9%	151.3	74.1%
2017	211.5	130.1	61.5%	23.3	11.0%	153.4	72.5%

\* In preparing these projections, we requested the most recent investment earnings for the fiscal year-to-date and whether there were any additional layoffs, pay reductions, or significant events since June 30, 2011 that could materially affect these projections. We were informed that while earnings through 12/31/2011 were well below the assumed return for that period, that January and early February returns are likely to be very positive, and the remaining four and a half months of fiscal year 2012 offers more opportunity to realize the assumed return. In addition, we were informed by the City that there were no significant changes to the workforce or payroll since June 30, 2011.



Mr. Russell Crosby  
February 21, 2012  
Page 2

For the OPEB projections, the valuation has not been finalized, but the preliminary results indicate that the City's contributions would be in excess of the annual increase caps established in the MOAs. These projections apply the caps in the MOAs to the projected payroll, and it is assumed that the ultimate cap on the City's contribution rate of 11.0% remains in effect for the duration of the projection. In addition, these OPEB projections do not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010 and related legislation and regulations. Finally, the reality will be that experience will deviate from the assumptions which could have a significant impact on these projections in the short term. However, over the long term, the expectation is that overall favorable deviations will be offset by unfavorable deviations.

Since contributions are made separately for Police and Fire members, the tables below provide the additional detail that may be needed for these projections.

City of San Jose Police & Fire Department Plans Police Only (Dollar amounts in millions)							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2013	121.7	69.4	57.0%	10.9	9.0%	80.3	66.0%
2014	121.7	77.4	63.6%	12.6	10.3%	90.0	73.9%
2015	126.0	82.8	65.7%	13.9	11.0%	96.7	76.7%
2016	130.4	81.5	62.5%	14.3	11.0%	95.8	73.5%
2017	135.0	82.1	60.8%	14.8	11.0%	96.9	71.8%

City of San Jose Police & Fire Department Plans Fire Only (Dollar amounts in millions)							
FYE	Payroll	Pension		OPEB		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2013	69.0	40.6	58.9%	4.6	6.6%	45.2	65.5%
2014	69.0	45.2	65.5%	5.5	8.0%	50.7	73.5%
2015	71.4	48.3	67.6%	6.7	9.3%	55.0	76.9%
2016	73.9	47.6	64.4%	7.9	10.7%	55.5	75.1%
2017	76.5	48.0	62.8%	8.4	11.0%	56.4	73.8%

Also as requested, we have attached 20-year projections of City pension contributions.

We hereby certify that, to the best of our knowledge, this letter and its contents, which are work products of Cheiron, Inc., are complete and accurate and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of

 CHEIRON

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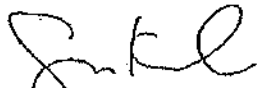


Mr. Russell Crosby  
February 21, 2012  
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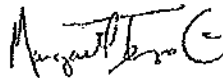
Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

These projections were prepared exclusively for the City of San Jose for the purpose of budget projections. These projections are not intended to benefit any third party. If you have any questions about this analysis, please let us know.

Sincerely,  
Cheiron



Gene Balwarski, FSA, EA, MAAA  
Principal Consulting Actuary



Margaret Templin, FSA, EA, MAAA  
Principal Consulting Actuary

Attachment

cc: Bill Hallmark  
Carmen Racy-Choy  
Joshua Davis



GURZA000775



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February 8, 2012

**VIA ELECTRONIC MAIL**

Mr. Russell Crosby  
Director of Retirement Services  
Federated City Employees' Retirement System  
1737 North 1<sup>st</sup> Street, Suite 580  
San Jose, California 95112

**Re: 5-Year Budget Projections for Federated**

Dear Russell:

As requested for purposes of City budget projections, we have estimated the future contributions expected to be required of the City of San Jose to the City of San Jose Federated Employees' Retirement System (Federated Pension) and the Federated Retiree Health Care Plan (Federated OPEB) for the next five years. The table below summarizes our estimated contributions assuming City contributions are made throughout the fiscal year.

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2013	240.2	106.7	44.4%	18.9	7.9%	125.6	52.3%
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2015	256.1	122.8	48.0%	44.6	17.4%	167.4	65.4%
2016	264.4	122.5	46.3%	46.3	17.5%	168.8	63.8%
2017	273.0	123.8	45.4%	47.8	17.5%	171.6	62.9%

Please note that these projections are based on the June 30, 2011 Actuarial Valuations for the Plans, and assume that all assumptions were exactly met since June 30, 2011 and are exactly met each and every year into the future. In reality, experience will deviate from the assumptions with the expectation that overall favorable deviations will be offset by unfavorable deviations over time. Finally, we have not adjusted the projections for any events, transactions or experience, and including investment returns, after June 30, 2011. Please refer to the valuation reports for a description of the plan provisions, a summary of the data, and a summary of the methods and assumptions used in each of the valuations.

Also as requested, we have attached 20-year projections of City pension contributions.

We hereby certify that, to the best of our knowledge, this letter and its contents, which are work products of Cheiron, Inc., are complete and accurate and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which




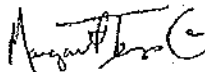
Mr. Russell Crosby  
February 8, 2012  
Page 2

are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

These projections were prepared exclusively for the City of San Jose for the purpose of budget projections. These projections are not intended to benefit any third party. If you have any questions about this analysis, please let us know.

Sincerely,  
Cheiron

  
Gene Kalwarski, FSA, EA, MAAA  
Principal Consulting Actuary

  
Margaret Tempkin, FSA, EA, MAAA  
Principal Consulting Actuary

Attachment

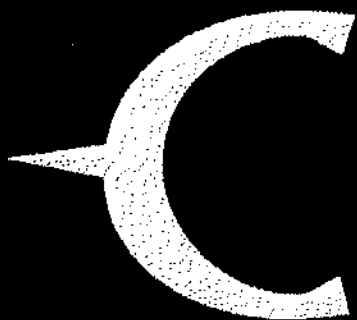
cc: Bill Hallmark  
Carmen Racy-Choy  
Anne Harper

**CITY OF SAN JOSE FEDERATED EMPLOYEES' RETIREMENT SYSTEM  
20-YEAR PROJECTED PENSION CONTRIBUTIONS**

<b>City of San Jose Federated Employees Retirement System 20-Year Projections of City Pension Contributions</b>		
<b>Fiscal Year Ending</b>	<b>Projected City Contribution Amount (Middle of Year)</b>	<b>Projected City Contribution Rate (% of Payroll)</b>
2012	\$ 90,275,000	28.3%
2013	\$ 106,744,000	44.5%
2014	\$ 116,387,000	46.9%
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2016	\$ 122,450,000	46.3%
2017	\$ 123,833,000	45.4%
2018	\$ 128,048,000	45.4%
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2021	\$ 141,478,000	45.6%
2022	\$ 146,238,000	45.7%
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2027	\$ 172,365,000	45.9%
2028	\$ 178,118,000	45.9%
2029	\$ 184,067,000	45.9%
2030	\$ 190,218,000	46.0%
2031	\$ 196,580,000	46.0%
2032	\$ 204,432,000	46.4%

*Based on 6/30/11 actuarial valuation*

**EXHIBIT 58**



**Federated City Employees'  
Retirement System**

**June 30, 2012  
Actuarial Valuation**

**Produced by Cheiron**

**December 2012**



Classic Values, Innovative Advice

**GURZA000779**

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## LETTER OF TRANSMITTAL

December 13, 2012

Retirement Board of the Federated City  
Employees' Retirement System  
1737 North 1<sup>st</sup> Street, Suite 580  
San Jose, California 95112

Dear Members of the Board:

The purpose of this report is to present the June 30, 2012 actuarial valuation of the City of San Jose Federated City Employees' Retirement System ("System"). This report is for the use of the Retirement Board and its auditors in preparing financial reports in accordance with applicable laws and accounting requirements.

On June 5, 2012, voters approved Measure B which would make a number of changes to the System. We understand that the City does not intend to implement most of the changes until a court rules on the legality of the changes. Consequently, the provisions of Measure B are not reflected in this valuation unless explicitly disclosed.

The table below presents the key results of the 2012 valuation compared to the 2011 valuation. It also shows 2012 valuation results both assuming the Supplemental Retirement Benefit Reserve (SRBR) continues and that it is eliminated pursuant to the recently enacted City ordinance. Except where otherwise noted, the results in this report assume the SRBR continues.

Summary of Key Valuation Results			
	Without SRBR	With SRBR	
	6/30/2012	6/30/2012	6/30/2011
<b>Discount Rate</b>	<b>7.50%</b>	<b>7.50%</b>	<b>7.50%</b>
Actuarial Liability (AL)	\$ 2,841,000	\$ 2,884,109	\$ 2,770,227
Actuarial Value of Assets (AVA)	1,762,973	1,762,973	1,788,660
Unfunded Actuarial Liability (UAL)	\$ 1,078,027	\$ 1,121,136	\$ 981,568
Funding Ratio - AVA	62%	61%	65%
Market Value of Assets (MVA)	\$ 1,649,249	\$ 1,649,249	\$ 1,760,617
Funding Ratio - MVA	58%	57%	64%

*Amounts in thousands*

As shown in the table above, if the SRBR is eliminated, the Actuarial Liability and the Unfunded Actuarial Liability would decrease by \$43 million, the balance of the SRBR as of June 30, 2012. The SRBR is currently included as part of the System's assets for valuation





purposes. If eliminated, the amount in the SRBR would be transferred to the General Reserve, but there would be no change to the assets used in the actuarial valuation.

In addition to the reduction in the UAL, the City's contribution rate would also be reduced for the elimination of the 0.35% of assets that is added to the City's normal cost for the expected annual transfer to the SRBR. The table below shows a summary of the contribution rates for the fiscal years ending in 2013 and 2014. For 2014, rates are shown both if the SRBR continues and if it is eliminated.

Summary of Key Valuation Results (continued)			
Fiscal Year Ending	Without SRBR 6/30/2014	With SRBR 6/30/2014	6/30/2013
<b>Tier 1</b>			
Member Contribution Rate	5.97%	5.97%	5.74%
City Contribution Rate	50.85%	55.33%	44.45%
City Contribution Amount			
- if paid at beginning of the year	\$ 100,671	\$ 109,544	\$ 102,972
- if paid throughout the year	\$ 104,378	\$ 113,577	\$ 106,763
Projected Payroll	\$ 205,277	\$ 205,277	\$ 240,187
<b>Tier 2</b>			
Member Contribution Rate	6.68%	6.68%	6.68%
City Contribution Rate	6.68%	6.68%	6.68% *
Est. City Contribution Amount			
- if paid at beginning of the year	\$ 1,799	\$ 1,799	N/A
- if paid throughout the year	\$ 1,865	\$ 1,865	N/A
Projected Payroll	\$ 27,922	\$ 27,922	N/A
<b>Total City</b>			
Estimated Aggregate Rate	45.56%	49.50%	N/A
Estimated Aggregate Amount			
- if paid at beginning of the year	\$ 102,470	\$ 111,343	\$ 102,972
- if paid throughout the year	\$ 106,244	\$ 115,443	\$ 106,763
Projected Payroll	\$ 233,200	\$ 233,200	\$ 240,187

*Amounts in thousands*

\* In addition to this amount, 28.94% of FYE 2013 Tier 2 payroll is contributed toward the Tier 1 UAL.

The City Council adopted final ordinances to implement a new Tier of pension benefits, for members hired on or after September 30, 2012, with equal cost-sharing between members and the City. The Board adopted member and City contribution rates for Tier 2 on August 16, 2012 for the fiscal year ending June 30, 2013. As of the valuation date, there are no Tier 2

members, so we have continued the same contribution rates for Tier 2 for the fiscal year ending June 30, 2014. A summary of plan benefits for Tier 2 can be found in Appendix C of this report and more detail on the development of Tier 2 contribution rates is provided in our August 16, 2012 presentation.

A summary of the key results of the June 30, 2012 valuation is as follows:

- *Unfunded Actuarial Liability (UAL)/Surplus:* The UAL increased by approximately \$140 million primarily due to the investment loss of the System (\$119 million).
- *Funding Ratio:* The ratio of the actuarial value of assets to the actuarial liability decreased since the last valuation from 65% to 61%. The actuarial value of assets is smoothed in order to mitigate the impact of investment performance volatility on employer contribution rates. Without the asset smoothing, the ratio of the market value of assets to the actuarial liability decreased from 64% to 57%.

- *Member Contribution Rate:*

*Tier 1:* The member contribution rate is a proportion (3/11ths) of the service normal cost rate (including administrative expenses). The Member contribution rate increased from 5.74% to 5.97% due to demographic experience.

*Tier 2:* The member contribution rate is 50% of the total cost of Tier 2 pension benefits. Since there are no Tier 2 members as of June 30, 2012, the Board approved the continuation of the member rate of 6.68% set for FYE 2013 and FYE 2014 as well.

- *City Contributions:*

*Tier 1:* City contributions are a proportion (8/11ths) of the service normal cost rate (including administrative expenses) plus the reciprocity normal cost rate plus an amortization payment on the UAL. City contributions as a percent of payroll increased from 44.45% of payroll to 55.33% of Tier 1 payroll. The contribution amount if paid on July 1, 2014 increased from \$103.0 million to \$109.5 million. The large increase in the contribution rate is mainly due to a decreasing Tier 1 payroll which causes the UAL rate to increase. The expected Tier 1 payroll decreased 15%, from \$240 million for FYE 2013 before Tier 2 was created to \$205 million for FYE 2014. However, the normal cost is paid on the lower Tier 1 payroll so the dollar amount is less.

If the SRBR is eliminated, the contribution rate for Tier 1 would decrease from 55.33% to 50.85% and the contribution amount, if paid on July 1, 2013, would decrease from \$109.5 million to 100.7 million.

The policy for determining the City's ARC for Tier 1 is the greater of: (1) the dollar amount determined in the actuarial valuation or (2) the percentage of payroll determined in the actuarial valuation multiplied by actual payroll throughout the year.

*Tier 2:* The city contribution rate is 50% of the total contribution rate for Tier 2. The City contribution rate is 6.68% of Tier 2 payroll. The city contribution for Tier 2 paid throughout the year is \$1.8 million.

At its November 15, 2012 meeting, the Board voted that the City's contribution for Tier 2 will be the contribution rate determined in the actuarial valuation multiplied by actual payroll throughout the year in order to maintain the equal cost-sharing between members and the City.

More details on the plan experience for the past year, including the changes listed above and their impact on these June 30, 2012 valuation results can be found in our report which follows.

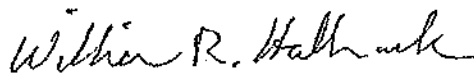
In preparing our report, we relied on information (some oral and some written) supplied by the City of San Jose Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

We hereby certify that, to the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This actuarial valuation report was prepared for the System for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This actuarial valuation report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Sincerely,  
Cheiron

  
Gene Kalwarski, FSA, FCA, EA, MAAA  
Principal Consulting Actuary

  
William R. Hallmark, ASA, FCA, EA, MAAA  
Consulting Actuary

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
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The primary purpose of this actuarial valuation is to report, as of the valuation date, on the following:

- The financial condition of the Federated City Employees' Retirement System,
- Past and expected trends in the financial condition of the System,
- Member and City contribution rates and amounts for the Fiscal Year Ending June 30, 2014, and
- Information required by the Governmental Accounting Standards Board (GASB).

In this Section, we present a summary of the principal valuation results. This includes the basis upon which the June 30, 2012 valuation was completed and an examination of the current financial condition of the System. In addition, we present a review of the key historical trends followed by the projected financial outlook for the System.

**A. Valuation Basis**

The System's funding policy sets City contributions for Tier 1 equal to the sum of:

- A portion (8/11<sup>th</sup>) of the Service Normal Rate (Regular Current Service Rate) including administrative expenses.
- The Reciprocity Rate, which is the prefunding of the liability for reciprocal benefits with certain other California public pension plans.
- The SRBR Rate, which is the annual amount expected to be transferred to the SRBR.
- The Deficiency Rate, which is the amortization of the funding deficiency.
- The Golden Handshake Rate, which is the cost for funding the additional benefits granted in the past to certain retiring employees.

The unfunded actuarial liability as of June 30, 2009 (including the Golden Handshake) is amortized over 30 years from that date, and any subsequent gains or losses or assumption changes are amortized as part of the Deficiency Rate over 20 years from the valuation in which they are first recognized. The amortizations are a level percent of expected Tier 1 and Tier 2 payroll.

For Tier 2, City contributions equal 50% of the total contribution rate for Tier 2.

Member contributions equal 3/11<sup>th</sup> of the Service Normal Rate for Tier 1 and 50% of the total contribution rate for Tier 2.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
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**B. Current Financial Condition**

The following pages provide a summary of the key results of the June 30, 2012 valuation and how they compare to the results from the June 30, 2011 valuation.

**1. Membership:**

As shown in Table I-1 below, total membership in Federated increased slightly from 2011 to 2012, but the changes between categories of membership were more significant. Active membership decreased 6.0%, terminated vested membership increased 11.3%, and retiree membership (including beneficiaries) increased 5.1%. Total payroll decreased by 1.3%, and the average pay per active member increased by 5.0%.

Table I-1			
Total Membership Counts			
Item	June 30, 2012	June 30, 2011	% Change
Active	3,076	3,274	(6.0%)
Terminated Vesteds	967	869	11.3%
Retirees	2,936	2,769	6.0%
Beneficiaries	459	449	2.2%
Disabled	207	210	(1.4%)
Total City Members	7,645	7,571	1.0%
Active Member Payroll	\$ 225,859,144	\$ 228,936,398	(1.3%)
Average Pay per Active Member	73,426	69,926	5.0%

**2. Assets and Liabilities:**

Table I-2 on the following page presents a comparison between the June 30, 2012 and June 30, 2011 assets, liabilities, UAL, and funding ratios.

The key results shown in Table I-2 indicate that the total actuarial liability increased 4.1% and the market value of assets decreased by 6.3%. The System employs an asset smoothing method which dampens the impact of investment market volatility on City contribution rates. For this year the smoothed value of assets (called the actuarial value of assets) decreased by 1.4%. The ratio of the actuarial value of assets to the market value of assets increased from 102% to 107%, indicating that the deferred losses are now slightly greater than the deferred gains. Finally, the UAL increased from \$981.6 million

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to \$1,121.1 million, resulting in a decrease in the funding ratio from 64.6% to 61.1%. Based on the market value of assets, the funding ratio decreased from 63.6% to 57.2%.

<b>Table I-2</b>			
<b>Assets &amp; Liabilities</b>			
<b>Item (EAN)</b>	<b>June 30, 2012</b>	<b>June 30, 2011</b>	<b>% Change</b>
Actives	\$ 839,502	\$ 878,864	(4.5%)
Terminated Vesteds	122,674	111,225	10.3%
Retirees	1,707,675	1,570,604	8.7%
Beneficiaries	99,309	93,751	5.9%
Disabled	71,840	72,674	(1.1%)
SRBR Balance	43,109	43,109	(0.0%)
Total Actuarial Liability	2,884,109	2,770,227	4.1%
Market Value of Assets	\$ 1,649,249	\$ 1,760,617	(6.3%)
Actuarial Value of Assets	\$ 1,762,973	\$ 1,788,660	(1.4%)
Unfunded Actuarial Liability	\$ 1,121,136	\$ 981,568	14.2%
Funding Ratio - Market Value	57.2%	63.6%	(6.4%)
Funding Ratio - Actuarial Value	61.1%	64.6%	(3.5%)

*Amounts in thousands*

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3. Contributions:

Table I-3 shows the components of the contribution rates for both Tier 1 and Tier 2. In Section IV of this report, we provide more detail on the development of these contribution rates.

Table I-3						
Components of Contribution Rates						
	FYE 2014			FYE 2013		
	Member	City	Total	Member	City	Total
<b>Tier 1</b>						
Normal Cost	5.78%	15.61%	21.39%	5.55%	15.00%	20.55%
Administrative Expenses	0.19%	0.51%	0.70%	0.19%	0.51%	0.70%
SRBR	0.00%	2.81%	2.81%	0.00%	2.57%	2.57%
UAL	<u>0.00%</u>	<u>36.40%</u>	<u>36.40%</u>	<u>0.00%</u>	<u>26.37%</u>	<u>26.37%</u>
Total	5.97%	55.33%	61.30%	5.74%	44.45%	50.19%
<b>Tier 2</b>						
Normal Cost	6.33%	6.33%	12.66%	6.33%	6.33%	12.66%
Administrative Expenses	0.35%	0.35%	0.70%	0.35%	0.35%	0.70%
SRBR	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
UAL	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total	6.68%	6.68%	13.36%	6.68%	6.68%	13.36%

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Table I-4 shows sources for the change in the Tier 1 net contribution rates and the City's Tier 1 contribution amount from the rates and amount calculated in the prior report. The increase in the Member contribution rate is due to demographic experience. The increase in the City's contribution rate is primarily due to investment losses and the decreased payroll over which the UAL is spread. Payroll for Tier 1 is expected to decrease over time as members leave the System and new entrants after September 30, 2012 join Tier 2.

Table I-4					
City Contribution Reconciliation for Tier 1					
Item	Member	City			Total City \$
		Normal	UAL	Total	
1. FYE 2013 Tier 1 Contribution Rate	5.74%	18.08%	26.37%	44.45%	\$103.0
2. Change due to investment loss	0.00%	0.00%	3.83%	3.83%	9.2
3. Change due to SRBR	0.00%	(0.24%)	(0.20%)	(0.44%)	(1.1)
4. Change due to other experience	0.23%	0.61%	0.13%	0.74%	1.5
5. Change due to decreasing payroll	0.00%	0.48%	6.27%	6.75%	(3.0)
6. FYE 2014 Tier 1 Contribution Rate	5.97%	18.93%	36.40%	55.33%	\$109.5



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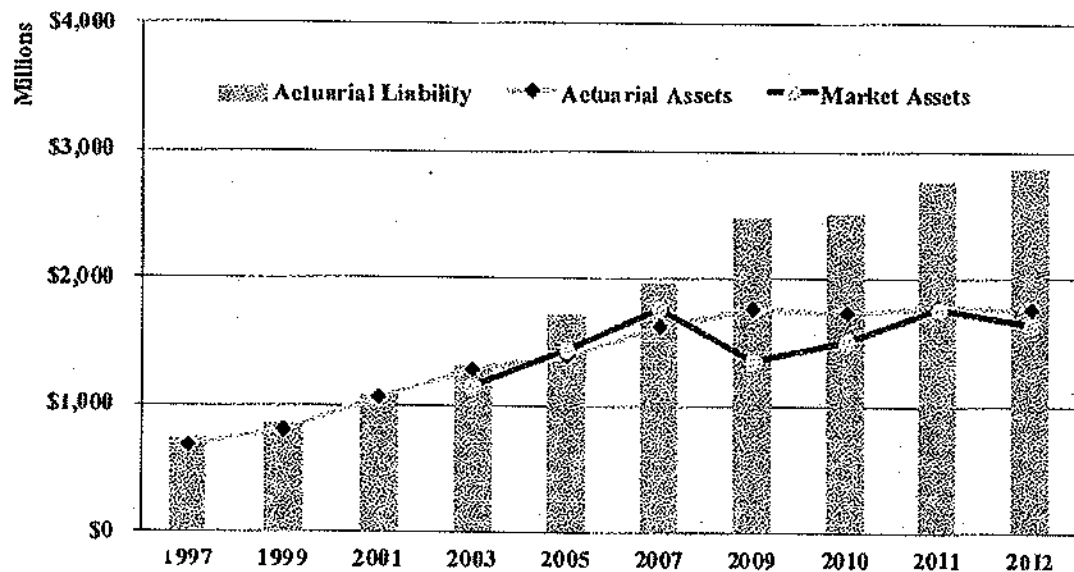
**SECTION I  
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**C. Historical Trends**

Despite the fact that most of the attention given to the valuation is with respect to the most recently computed unfunded actuarial liability, funding ratio, and the System's contribution rates, it is important to remember that each valuation is merely a snapshot of the long-term progress of a pension fund. It is more important to judge a current year's valuation result relative to historical trends, as well as trends expected into the future. In the following charts, we present the historical trends based on prior actuarial valuations. Please note that prior to June 30, 2009, valuations were performed every other year. Beginning June 30, 2009, valuations are performed every year.

The chart below shows the historical trends for assets (both market and smoothed) versus the actuarial liability, and also shows the progress of the funding ratios since 1997.

**Federated Assets and Liabilities 1997-2012**



Funded Ratio	92.3%	93.3%	98.9%	97.6%	80.9%	82.8%	70.7%	68.9%	64.6%	61.1%
UAL	568	57.4	12.2	31.0	326.9	338.1	729.6	780.9	981.6	1,121.1

\* Market value of assets reported prior to 2003 included retiree health assets

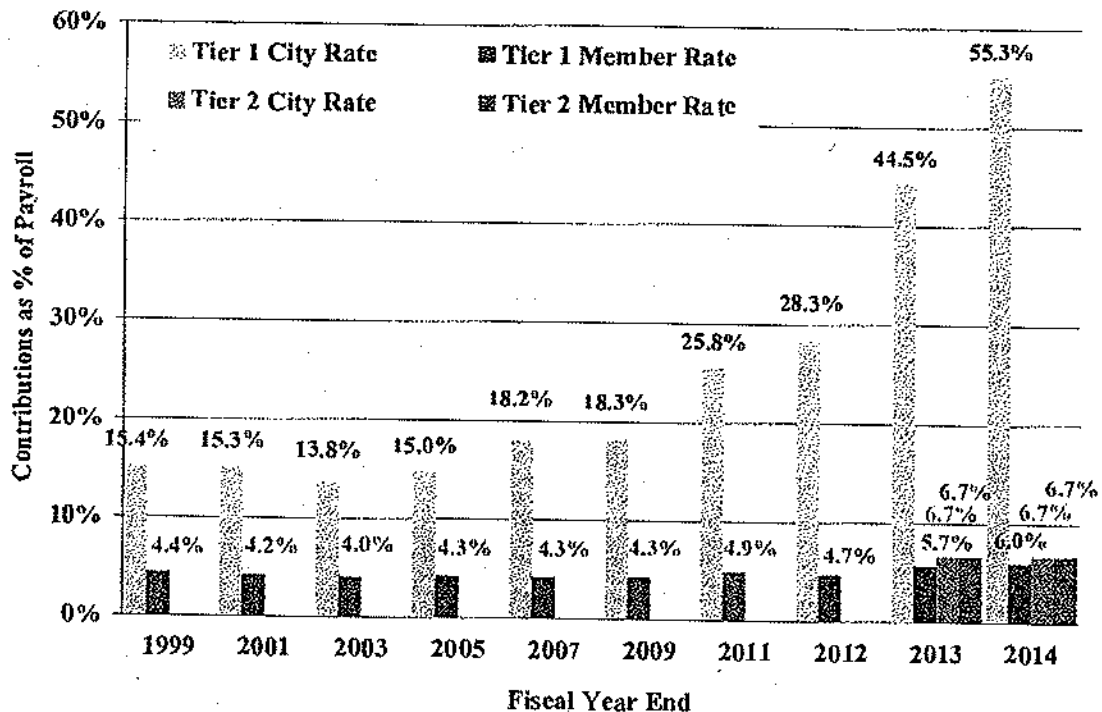
The chart above indicates that from 1997 to 2001, the System's funding ratio improved, but was still in deficit status. Then, from 2001 to 2012 (with the exception of 2007), the funding ratio steadily declined. The decline is due primarily to investment experience.

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The chart below shows the historical trends for the System's contribution rates since the Fiscal Year Ending June 30, 1999. Beginning with the Fiscal Year Ending 2013, contribution rates are shown for Tier 1 and Tier 2. Tier 2 rates are effective September 30, 2013. All information shown prior to the Fiscal Year Ending June 30, 2012 was calculated by the prior actuary. Also, please note that the Fiscal Year Ending 2011 rates shown do not reflect the phase-in of contribution rates that was adopted for Members. The phased-in rate was 4.54%.

**Employer and Member Contribution Rates 1999-2014**



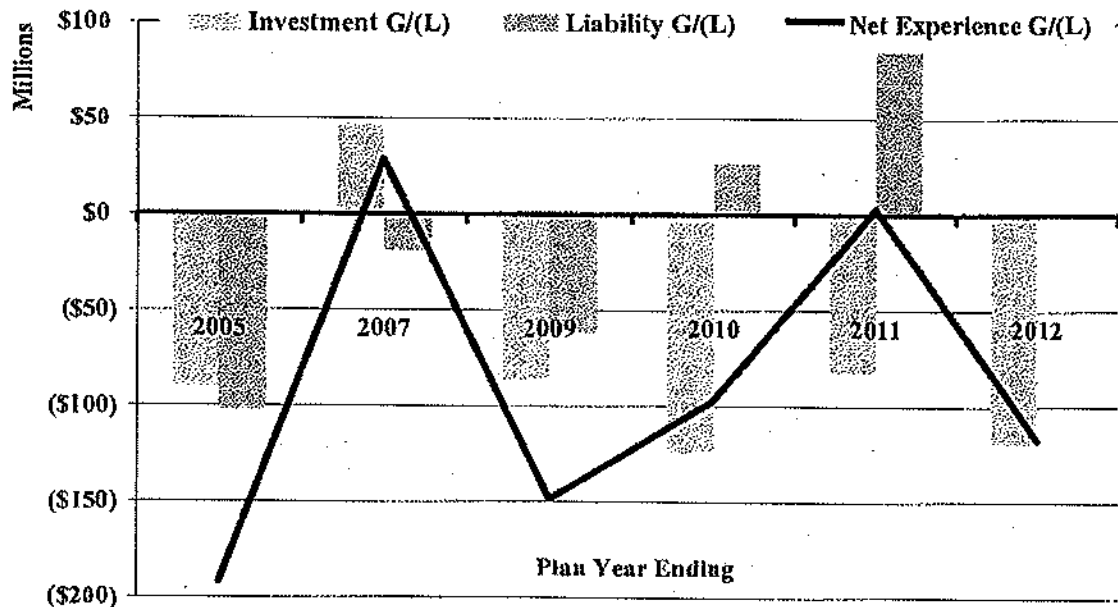
The key information in this chart is the increase in the City contribution rate since 2003 and particularly since 2009. Rates have increased primarily due to investment losses, assumption changes, and reductions in payroll that increased the UAL rate. The increase in Tier 1 contribution rate scheduled for the Fiscal Year Ending in 2014 is primarily due to investment losses and the reduction in expected Tier 1 payroll due to the creation of Tier 2.

The following chart represents the pattern of the System's actuarial gains and losses, broken into the investment and liability components. The chart does not include any changes in the System's assets and liabilities attributable to changes to methods, procedures or assumptions.

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SJFCERS Historical Gain/(Loss) 2005-2012



The key insights from this chart are:

- Investment losses (gold bars) in 2005 are partially offset by investment gains from 2006 and 2007. From 2008 to 2012, there were additional investment losses. Since the actuarial value of assets only recognizes a portion of the recent market losses, additional investment losses and gains on the actuarial value of assets are expected over the four years as the recent market returns are fully recognized.
- On the liability side, half of the valuations showed actuarial losses. The actuarial gains in 2010 and 2011 are primarily due to actual salaries being less than expected. The small actuarial gain in 2012 indicates that the demographic assumptions adopted for the June 30, 2011 valuation more accurately reflect current demographic experience.

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**D. Projected Financial Trends**

Our analysis of projected financial trends is an important part of this valuation. In this Section, the implications of the June 30, 2012 valuation results on the future outlook for the System in terms of benefit security (assets over liabilities) and expected future contribution rates are illustrated.

In the charts that follow, we project assets and liabilities, the pay down of UAL, and the City and Member contributions on two different bases:

- 1) Assuming all assumptions are met including a 7.5% return for 2012-13 and each and every year that follows, and
- 2) Assuming all assumptions are met except for the investment returns shown in the table below. These are rates of return that vary each year but over the projection period equal on average the assumed 7.5% return. We do this in order to illustrate the impact of volatility because the System's investment returns will never be level each and every year.

<b>FYE</b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>
<b>Return</b>	20.0%	8.0%	3.0%	20.0%	-4.0%	18.0%	13.0%	9.0%	-7.0%	16.0%
<b>FYE</b>	<b><u>2023</u></b>	<b><u>2024</u></b>	<b><u>2025</u></b>	<b><u>2026</u></b>	<b><u>2027</u></b>	<b><u>2028</u></b>	<b><u>2029</u></b>	<b><u>2030</u></b>	<b><u>2031</u></b>	<b><u>2032</u></b>
<b>Return</b>	9.0%	-8.0%	8.0%	13.0%	16.0%	-8.0%	-16.0%	30.0%	25.0%	-1.0%

Please note that the investment returns shown above were selected solely to illustrate the impact of investment volatility on the pattern of funded status and City and member contribution rates. They are not intended to be predictive of actual future contribution rates or funded status or even to represent a realistic pattern of investment returns.

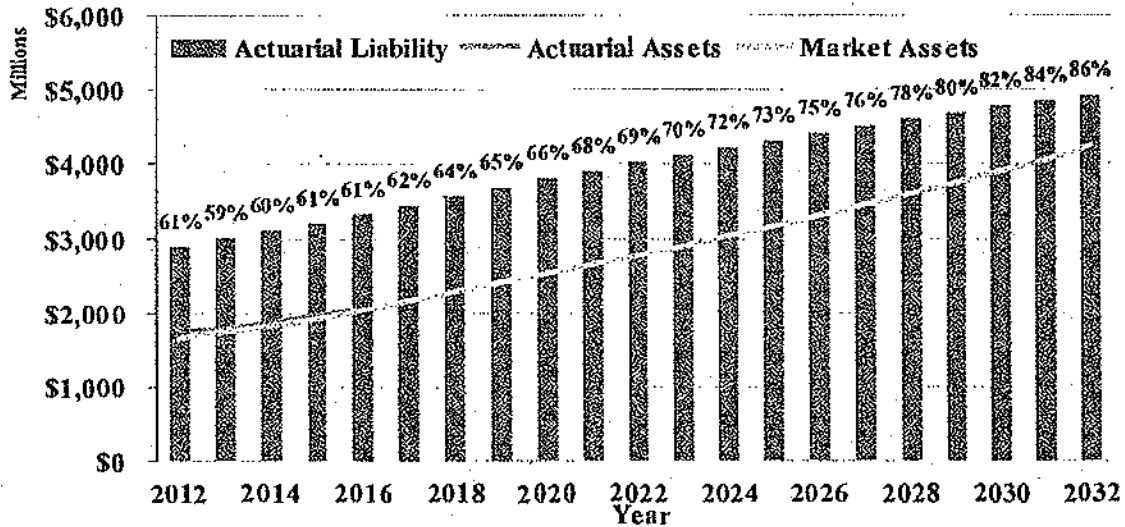
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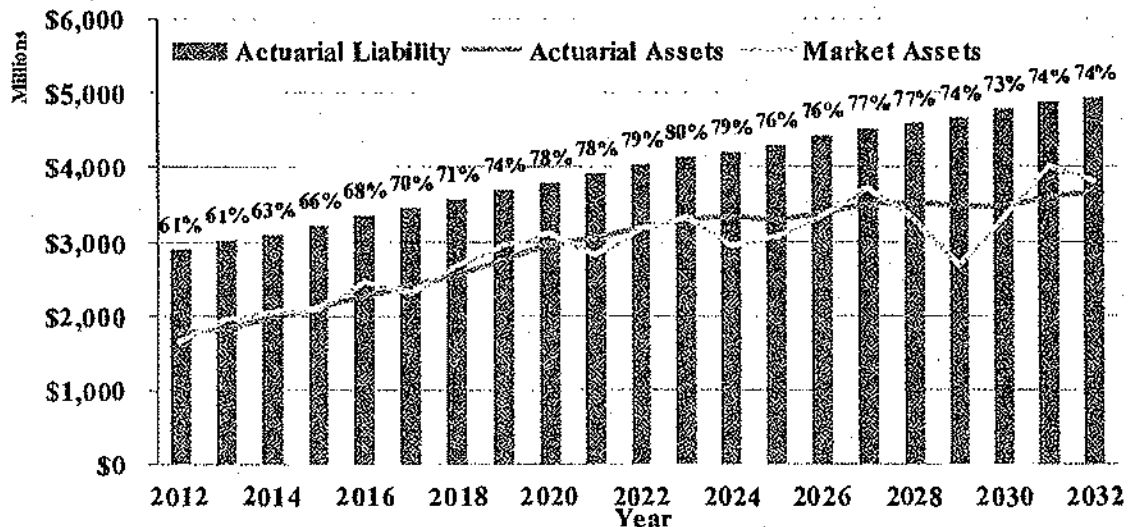
**Projection Set 1: Assets and Liabilities**

The chart below shows asset measures (green and orange lines) compared to the actuarial liability (gray bars). At the top of each chart is the progression of funding ratios. The key insight from this chart is the steady projected improvement in funded ratios in the first chart, and how varying investment returns can impact the progression of funding ratios.

**Chart 1: Projection of Assets and Liabilities, 7.5% return each year**



**Chart 2: Projection of Assets and Liabilities, varying returns averaging 7.5% over time**



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Projection Set 2: Projected Employer Contribution Rate

As shown in Chart 1 below, City contribution rates are expected to increase over the next two years as investment losses are recognized, and then stabilize for a few years before gradually declining as Tier 2 becomes more significant. These contribution rates are slightly higher than those projected in the prior valuation (red line). The increase is mostly due to the investment losses for the 2011-12 plan year as well as a slight reduction in total payroll. As shown in Chart 2 below, the projected amount of the contribution is very similar to the prior valuation projections.

Chart 1: 7.5% return each year – Percentage of Pay

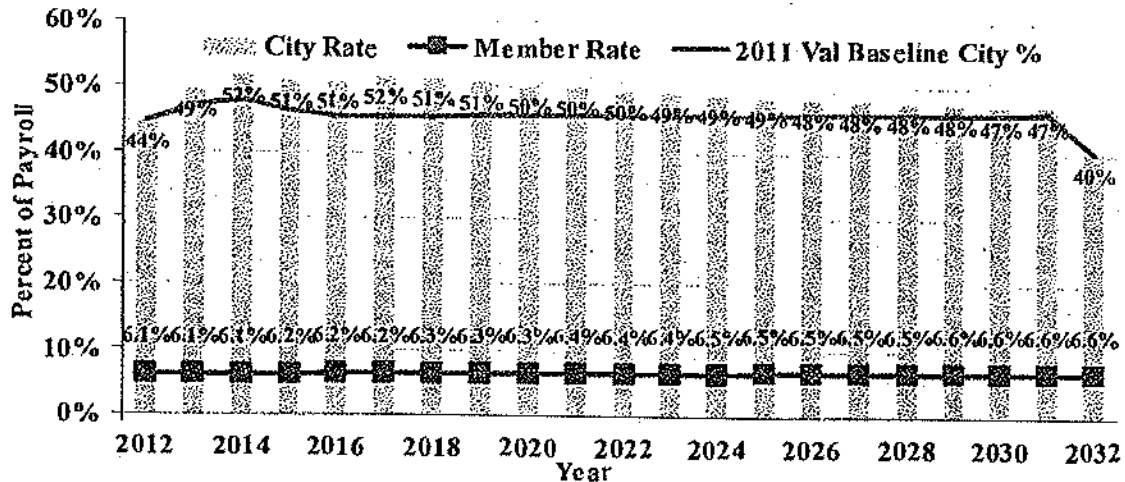
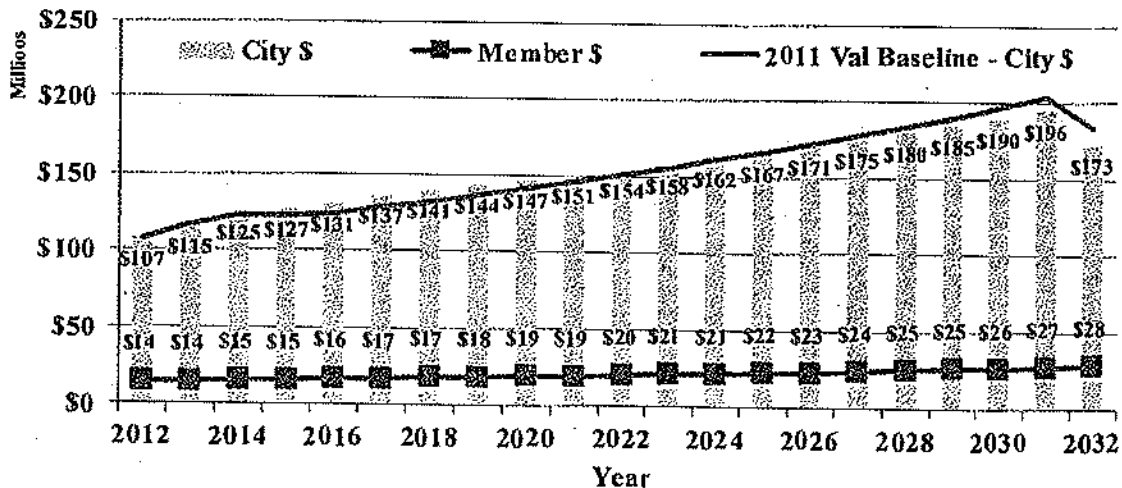


Chart 2: 7.5% return each year – Dollar Contributions

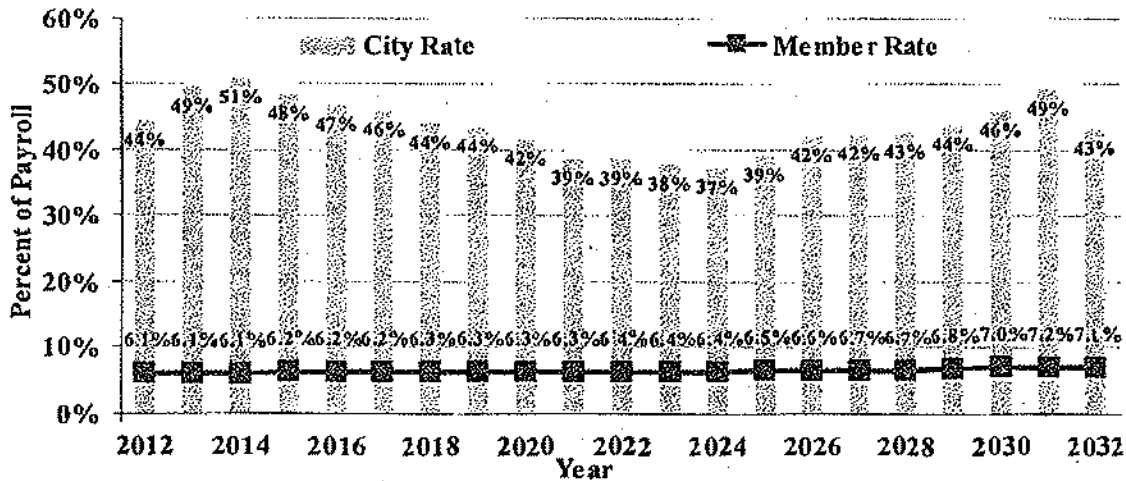


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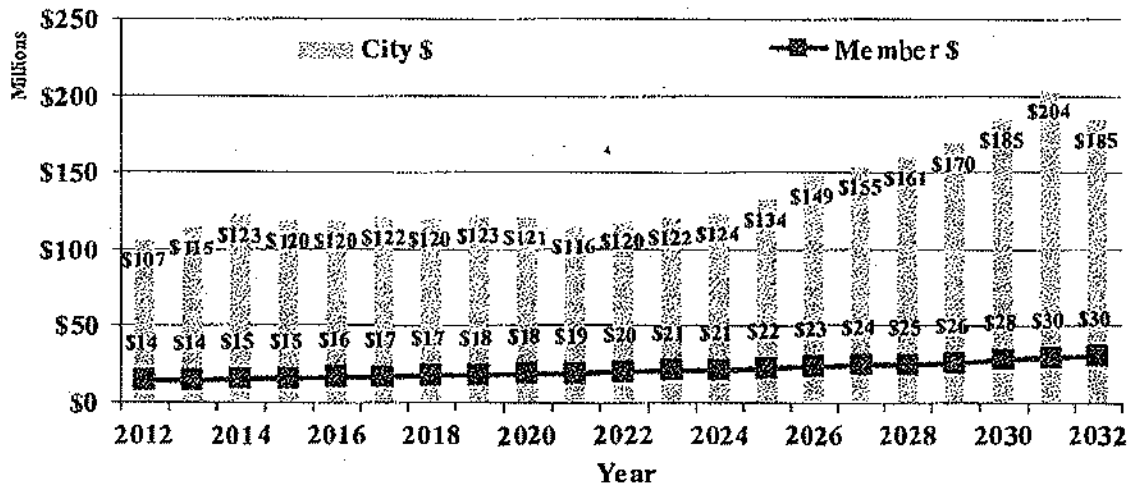
**SECTION I  
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Varying investment returns can significantly alter the projected contribution rates and amounts. As shown in Charts 3 and 4, varying returns that average the assumed rate of return over the projection period can result in much lower (or higher) contribution rates and amounts at different points in the projection. The asset smoothing and amortizations smooth out these variations, but significant variability in contribution rates remains.

**Chart 3: Varying returns averaging 7.5% over time – Percentage of Pay**



**Chart 4: Varying returns averaging 7.5% over time – Dollar Contributions**



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**SECTION II  
ASSETS**

The System uses and discloses two different asset measurements which are presented in this section of the report: market value and actuarial value of assets. The market value represents the value of the assets if they were liquidated on the valuation date. The actuarial value of assets is a value that smoothes annual investment return performance over multiple years to reduce the impact of short-term investment volatility on employer contribution rates.

On the following pages we present the following information on the System's assets:

- Statement of changes in the market value of assets during the year,
- Development of excess earnings,
- Development of the actuarial value of assets, and
- Discussion of investment performance for the year.

**A. Statement of Change in Market Value of Assets**

Table II-1 shows sources for the change in the market value of assets.

<b>Table II-1</b>				
<b>Change in Market Value of Assets</b>				
	<b>June 30, 2012</b>			<b>June 30, 2011</b>
	<b>Basic*</b>	<b>Cost of Living</b>	<b>Total Retirement</b>	<b>Total Retirement</b>
<b>Market Value, Beginning of Year</b>	\$ 1,291,485	\$ 469,133	\$ 1,760,618	\$ 1,512,802
<b>Contributions</b>				
Member	7,994	2,561	10,554	24,602
City	69,496	17,586	87,082	59,180
<b>Total</b>	<b>\$ 77,490</b>	<b>\$ 20,147</b>	<b>\$ 97,637</b>	<b>\$ 83,782</b>
<b>Net Investment Earnings**</b>	\$ (51,611)	\$ (17,290)	\$ (68,901)	\$ 284,312
<b>Benefit Payments</b>	\$ (107,106)	\$ (29,692)	\$ (136,798)	\$ (120,278)
<b>Administrative Expenses</b>	\$ (2,455)	\$ (850)	\$ (3,306)	-
<b>Market Value, End of Year</b>	<b>\$ 1,207,803</b>	<b>\$ 441,447</b>	<b>\$ 1,649,250</b>	<b>\$ 1,760,618</b>

*Amounts in thousands*

\* Includes SRBR of \$43,109 at the beginning and at the end of the year.

\*\* Gross investment earnings less investment expenses

Table II-2 shows the development of excess earnings.



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**SECTION II  
ASSETS**

<p style="text-align: center;"><b>Table II-2 Development of Excess Earnings as of June 30, 2012</b></p>					
	Retirement Fund Reserve				
	Employee	SRBR	General	Total	
1. Total Earnings				\$	(54,067)
2. Balance, July 1, 2011	\$ 192,822	\$ 43,109	\$ 1,055,554	\$	1,291,485
3. Net Cashflow	\$ (15,016)	\$ 0	\$ (14,600)	\$	(29,616)
4. Crediting Rate	3.00%	0.00%	0.00%		
5. Primary Interest Crediting	\$ 6,034	\$ -	\$ -	\$	6,034
6. Balance, June 30, 2012	\$ 183,840	\$ 43,109	\$ 1,040,954	\$	1,267,903
7. Excess Earnings		\$ -	\$ (60,101)	\$	(60,101)
8. Balance, July 1, 2012	\$ 183,840	\$ 43,109	\$ 980,853	\$	1,207,803

*Amounts in thousands*

**B. Actuarial Value of Assets**

To determine on-going funding requirements, most pension funds utilize an actuarial value of assets that differs from the market value of assets. The actuarial value of assets is based on averaging or smoothing year-to-year market value returns for purposes of reducing the resulting volatility on contributions.

The actuarial value is calculated by recognizing 20% of each of the prior four years of actual investment experience relative to the expected return on the actuarial asset value (7.5% for 2011-2012, 7.95% for 2010-2011, 7.75% for 2009-2010, 8.25% for prior years). The expected return on the actuarial value of assets is determined using the System's actual cash flows and the assumed rate of return. The balance of the actual investment experience is recognized in a similar fashion in future years. (See Appendix B for further explanation of the asset valuation method).

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION II  
ASSETS**

<b>Table II-3 Development of Actuarial Value of Assets as of June 30, 2012</b>			
	<b>Basic</b>	<b>Cost of Living</b>	<b>Total Retirement</b>
<b>Market Value of Assets</b>	<b>\$ 1,207,803</b>	<b>\$ 441,447</b>	<b>\$ 1,649,249</b>
<b>Gains/(Losses)</b>			
Current Year	(149,934)	(52,760)	(202,694)
Prior Year	125,205	38,797	164,003
2nd Prior Year	72,529	18,926	91,456
3rd Prior Year	(343,206)	(89,559)	(432,764)
<b>Deferred Gains/(Losses)</b>			
Current Year (80% deferred)	(119,947)	(42,208)	(162,155)
Prior Year (60% deferred)	75,123	23,278	98,402
2nd Prior Year (40% deferred)	29,012	7,571	36,582
3rd Prior Year (20% deferred)	(68,641)	(17,912)	(86,553)
<b>Total</b>	<b>\$ (84,453)</b>	<b>\$ (29,271)</b>	<b>\$ (113,724)</b>
<b>Actuarial Value of Assets</b>	<b>\$ 1,292,256</b>	<b>\$ 470,717</b>	<b>\$ 1,762,973</b>

*Amounts in thousands*

**C. Investment Performance**

The market value of assets internal rate of return, net of investment expenses, was -3.9% for the year ending June 30, 2012. This is compared to an assumed return of 7.50%.

On an actuarial value of assets basis, the return for the year ending June 30, 2012 was 0.9%. The difference is largely due to the recognition of deferred gains from prior years while 80% of the loss for 2011-12 is deferred to future years. This return produced an overall investment loss of \$119.3 million for the year ending June 30, 2012.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION

**SECTION III  
LIABILITIES**

In this section, we present detailed information on liabilities for the System, including:

- Disclosure of liabilities at June 30, 2011 and June 30, 2012, and
- Statement of changes in the unfunded actuarial liability during the year.

**A. Disclosure**

Two measures of liability are calculated and presented in this report. Each type is distinguished by the purpose for which the figures are ultimately used.

- **Present Value of All Future Benefits:** Used for measuring all future obligations, represents the expected amount of money needed today to fully pay off all benefits both earned as of the valuation date and those to be earned in the future by current plan members under the current Plan provisions.
- **Actuarial Liability - Entry Age (EA):** Used for determining employer contributions and GASB accounting disclosures. This measure of liability is calculated taking the present value of all future benefits and subtracting the present value of future member contributions and future employer normal costs as determined under the EA actuarial cost method. It represents the expected amount of money needed today to pay for benefits attributed to service prior to the valuation date.

Table III-1 and Table III-2 on the following page disclose these measures of liability for the current and prior valuations. By subtracting the actuarial value of assets from the actuarial liability, the net surplus or unfunded actuarial liability (UAL) is determined.

Table III-3 shows the Entry Age Normal Cost as a percentage of pay. The Entry Age Normal Cost represents the expected amount of money needed to fund the benefits attributed to the next year of service under the EA actuarial cost method. Administrative expenses and the SRBR are explicitly valued as an addition to normal cost (0.70% of payroll for administrative expenses and 0.35% of the market value of assets for the SRBR).

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION III  
LIABILITIES**

<b>Table III-1 Present Value of Future Benefits</b>				
	<b>June 30, 2012</b>			<b>June 30, 2011</b>
	<b>Basic</b>	<b>Cost of Living</b>	<b>Total Retirement</b>	<b>Total Retirement</b>
<b>Actives</b>				
Retirement	\$ 778,851	\$ 273,926	\$ 1,052,777	\$ 1,083,290
Termination	62,237	20,434	82,671	82,354
Death	18,699	5,940	24,639	23,782
Disability	30,271	10,562	40,833	40,718
<b>Total Actives</b>	<b>\$ 890,058</b>	<b>\$ 310,862</b>	<b>\$ 1,200,920</b>	<b>\$ 1,230,144</b>
Retirees	1,057,827	649,848	1,707,675	1,570,604
Beneficiaries	50,282	49,027	99,309	93,751
Disabled	39,958	31,882	71,840	72,674
Deferred Vested	90,450	32,224	122,674	111,225
SRBR Balance	43,109	-	43,109	43,109
<b>Total</b>	<b>\$ 2,171,684</b>	<b>\$ 1,073,843</b>	<b>\$ 3,245,527</b>	<b>\$ 3,121,507</b>

*Amounts in thousands*

<b>Table III-2 Actuarial Liability</b>				
	<b>June 30, 2012</b>			<b>June 30, 2011</b>
	<b>Basic</b>	<b>Cost of Living</b>	<b>Total Retirement</b>	<b>Total Retirement</b>
<b>Actives</b>				
Retirement	\$ 580,720	\$ 204,462	\$ 785,182	\$ 815,306
Termination	12,719	8,811	21,530	31,003
Death	10,822	3,295	14,117	13,795
Disability	14,147	4,526	18,673	18,760
<b>Total Actives</b>	<b>\$ 618,408</b>	<b>\$ 221,094</b>	<b>\$ 839,502</b>	<b>\$ 878,864</b>
Retirees	1,057,827	649,848	1,707,675	1,570,604
Beneficiaries	50,282	49,027	99,309	93,751
Disabled	39,958	31,882	71,840	72,674
Deferred Vested	90,450	32,224	122,674	111,225
SRBR Balance	43,109	-	43,109	43,109
<b>Total</b>	<b>\$ 1,900,034</b>	<b>\$ 984,075</b>	<b>\$ 2,884,109</b>	<b>\$ 2,770,227</b>

*Amounts in thousands*

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION III  
LIABILITIES**

<b>Table III-3 Tier I Normal Cost*</b>				
	<b>June 30, 2012</b>			<b>June 30, 2011</b>
	<b>Basic</b>	<b>Cost of Living</b>	<b>Total</b>	<b>Total</b>
Retirement	11.97%	4.16%	16.13%	15.90%
Termination	2.52%	0.57%	3.09%	2.55%
Death	0.49%	0.16%	0.65%	0.61%
Disability	0.96%	0.35%	1.31%	1.28%
Reciprocity	<u>0.16%</u>	<u>0.05%</u>	<u>0.21%</u>	<u>0.21%</u>
<b>Sub-Total</b>	<b>16.10%</b>	<b>5.29%</b>	<b>21.39%</b>	<b>20.55%</b>
Admin Expense	0.70%	0.00%	0.70%	0.70%
SRBR	<u>2.81%</u>	<u>0.00%</u>	<u>2.81%</u>	<u>2.57%</u>
<b>Total</b>	<b>19.61%</b>	<b>5.29%</b>	<b>24.90%</b>	<b>23.82%</b>

\* No Tier 2 Members as of 6/30/2012

**B. Changes in the Unfunded Actuarial Liability**

The UAL of any retirement plan is expected to change at each subsequent valuation for a variety of reasons. In each valuation, we report on those elements of change in the UAL that have particular significance or could potentially affect the long-term financial outlook of a retirement plan. Table III-4 on the following page summarizes the key changes in the UAL since the last valuation.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION

**SECTION III  
LIABILITIES**

Table III-4 Development of 2012 Experience Gain/(Loss)	
Item	Amount
1. Unfunded Actuarial Liability at June 30, 2011	\$ 981,568
2. Expected unfunded accrued liability payment	47,774
3. Interest accrued	70,034
4. Expected Unfunded Actuarial Liability at June 30, 2012 (1-2+3)	\$ 1,003,828
5. Actual Unfunded Liability at June 30, 2012	\$ 1,121,136
6. Difference: (5 - 4)	(117,308)
a. Portion of (6) due to investment gain or (loss)	\$ (119,331)
b. Portion of (6) due to earlier than expected retirements	(23,943)
c. Portion of (6) due to due to retiree spouse data	7,978
d. Portion of (6) due to no excess earnings transferred to SRBR	6,162
e. Portion of (6) due to other experience	11,826
f. Total	\$ (117,308)

*Amounts in thousands*

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION IV  
CONTRIBUTIONS**

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions are needed to achieve and maintain an appropriate funded status of a plan. Typically, the actuarial process will use an actuarial funding method that will result in a pattern of contributions that are both stable and predictable.

The actuarial funding methodology employed is the Entry Age actuarial cost method. Under this method, there are two components to the total contribution: the normal cost, and the unfunded actuarial liability contribution. The normal cost rate is determined by taking the value, as of entry age into the plan, of each member's projected future benefits. This value is then divided by the value, also at entry age, of each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. Administrative expenses and the expected net transfer to the SRBR are added to the entry age normal cost. Finally, the normal cost is reduced by the member contribution to produce the employer normal cost. The difference between the actuarial liability and the actuarial value of assets is the unfunded actuarial liability. The UAL is made up of the unamortized UAL as of June 30, 2011 plus the impact of the 2012 experience and the 2011 UAL payment that is made on July 1, 2012.

Table IV-1 provides the payment schedules to amortize the unfunded liability as of June 30, 2009 over 30 years, and any additional actuarial gains/(losses), assumption or method changes after June 30, 2009 over 20 years. The amortizations are a level percent of expected Tier 1 and Tier 2 payroll.

Table IV-2 shows how the City's contribution rate for FYE 2014 is developed. The methodology and assumptions used are in full compliance with the parameters set in GASB Statement No. 25 for purposes of determining the annual required contribution (ARC).

Table IV-3 shows the City's contribution dollar amounts for FYE 2014 assuming contributions are made at the beginning of the fiscal year. To the extent contributions are made after the beginning of the fiscal year, the amounts should be increased at an annual rate of 7.50 percent.

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION IV  
CONTRIBUTIONS**

<b>Table IV-1 UAL Amortization</b>				
	<b>Outstanding Balance</b>	<b>Remaining Period</b>	<b>Payment</b>	
			<b>\$ Amount</b>	<b>% of Pay</b>
<b>Basic Retirement Benefit</b>				
Golden Handshake	\$ 16,727	27	\$ 1,071	0.54%
2009 UAL	599,341	27	38,391	19.39%
2010 (Gain) or Loss	47,487	18	3,910	1.97%
2010 Assumption Change	(38,147)	18	(3,141)	(1.6%)
2011 (Gain) or Loss	9,355	19	743	0.38%
2011 Assumption Changes	116,812	19	9,274	4.68%
2012 (Gain) or Loss	(192,463)	20	(14,773)	(7.5%)
7/1/2012 Payment	<u>48,667</u>		<u>0</u>	<u>0.00%</u>
<b>Total</b>	<b>\$ 607,779</b>		<b>\$ 35,475</b>	<b>17.92%</b>
<b>Cost of Living Benefit</b>				
Golden Handshake	\$ 4,067	27	\$ 261	0.13%
2009 UAL	146,770	27	9,401	4.75%
2010 (Gain) or Loss	3,461	18	285	0.14%
2010 Assumption Change	(21,176)	18	(1,744)	(0.9%)
2011 (Gain) or Loss	(12,351)	19	(981)	-0.50%
2011 Assumption Changes	70,406	19	5,590	2.82%
2012 (Gain) or Loss	309,771	20	23,777	12.01%
7/1/2012 Payment	<u>12,409</u>		<u>0</u>	<u>0.00%</u>
<b>Total</b>	<b>\$ 513,357</b>		<b>\$ 36,590</b>	<b>18.48%</b>
<b>Total</b>	<b>\$ 1,121,136</b>		<b>\$ 72,065</b>	<b>36.40%</b>

*Amounts in thousands*

If the SRBR is eliminated, a base equal to the SRBR balance of (\$43,109,000) as of June 30, 2012 would be amortized over 20 years with a payment of (\$3,309,000) or -1.61% of pay.



**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION IV  
CONTRIBUTIONS**

<b>Table IV-2 Contribution Rates</b>						
	<b>Fiscal Year 2013-14</b>			<b>Fiscal Year 2012-13</b>		
	<b>Basic</b>	<b>COLA</b>	<b>Total</b>	<b>Basic</b>	<b>COLA</b>	<b>Total</b>
<b><u>Tier 1</u></b>						
<b>Member Rate</b>	<b>4.53%</b>	<b>1.44%</b>	<b>5.97%</b>	<b>4.32%</b>	<b>1.42%</b>	<b>5.74%</b>
City Service Normal Rate	14.91%	3.81%	18.72%	14.11%	3.76%	17.87%
City Reciprocity Normal Rate	<u>0.16%</u>	<u>0.05%</u>	<u>0.21%</u>	<u>0.15%</u>	<u>0.06%</u>	<u>0.21%</u>
<b>City Normal Rate</b>	<b>15.07%</b>	<b>3.86%</b>	<b>18.93%</b>	<b>14.26%</b>	<b>3.82%</b>	<b>18.08%</b>
City Deficiency Rate	17.38%	18.35%	35.73%	20.56%	5.25%	25.81%
City Golden Handshake Rate	<u>0.54%</u>	<u>0.13%</u>	<u>0.67%</u>	<u>0.45%</u>	<u>0.11%</u>	<u>0.56%</u>
<b>City UAL Rate</b>	<b>17.92%</b>	<b>18.48%</b>	<b>36.40%</b>	<b>21.01%</b>	<b>5.36%</b>	<b>26.37%</b>
<b>City Rate</b>	<b>32.99%</b>	<b>22.34%</b>	<b>55.33%</b>	<b>35.27%</b>	<b>9.18%</b>	<b>44.45%</b>
<b><u>Tier 2</u></b>						
Member Normal Rate	6.13%	0.55%	6.68%	6.13%	0.55%	6.68%
Member UAL Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Member Rate</b>	<b>6.13%</b>	<b>0.55%</b>	<b>6.68%</b>	<b>6.13%</b>	<b>0.55%</b>	<b>6.68%</b>
City Normal Rate	6.13%	0.55%	6.68%	6.13%	0.55%	6.68%
City UAL Rate	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
<b>City Rate</b>	<b>6.13%</b>	<b>0.55%</b>	<b>6.68%</b>	<b>6.13%</b>	<b>0.55%</b>	<b>6.68%</b>

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION IV  
CONTRIBUTIONS**

Table IV-2(a) Contribution Rates - Tier 1 With Elimination of SRBR			
	Fiscal Year 2013-14		
	Basic	COLA	Total
<b>Member Contribution Rate</b>	4.53%	1.44%	5.97%
City Service Normal Rate	12.10%	3.81%	15.91%
City Reciprocity Normal Rate	<u>0.16%</u>	<u>0.05%</u>	<u>0.21%</u>
<b>City Tier 1 Normal Rate</b>	12.26%	3.86%	16.12%
City Deficiency Rate	15.71%	18.35%	34.05%
City Golden Handshake Rate	<u>0.54%</u>	<u>0.13%</u>	<u>0.67%</u>
<b>City Tier 1 UAL Rate</b>	16.25%	18.48%	34.73%
<b>Tier 1 City Rate</b>	28.51%	22.34%	50.85%

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION IV  
CONTRIBUTIONS**

Table IV-3 City Contribution Amounts (BOY)						
	July 1, 2013			July 1, 2012		
	Basic	COLA	Total	Basic	COLA	Total
<b><u>Tier 1</u></b>						
City Service Normal Cost	\$ 29,520	\$ 7,543	\$ 37,063	\$ 32,687	\$ 8,710	\$ 41,397
City Reciprocity Normal Cost	317	99	416	347	139	486
<b>City Normal Cost</b>	<b>\$ 29,837</b>	<b>\$ 7,642</b>	<b>\$ 37,479</b>	<b>\$ 33,034</b>	<b>\$ 8,849</b>	<b>\$ 41,884</b>
City Deficiency Cost	\$ 34,404	\$ 36,329	\$ 70,733	\$ 47,629	\$ 12,162	\$ 59,791
City Golden Handshake Cost	1,071	261	1,332	1,042	255	1,297
<b>City UAL Cost</b>	<b>\$ 35,475</b>	<b>\$ 36,590</b>	<b>\$ 72,065</b>	<b>\$ 48,671</b>	<b>\$ 12,417</b>	<b>\$ 61,088</b>
 <b>City Contribution</b>	 <b>\$ 65,312</b>	 <b>\$ 44,232</b>	 <b>\$ 109,544</b>	 <b>\$ 81,705</b>	 <b>\$ 21,266</b>	 <b>\$ 102,972</b>
<b><u>Tier 2</u></b>						
City Normal Cost	\$ 1,651	\$ 148	\$ 1,799	N/A	N/A	N/A
City UAL Cost	-	-	-	N/A	N/A	N/A
<b>City Contribution</b>	<b>\$ 1,651</b>	<b>\$ 148</b>	<b>\$ 1,799</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

*Amounts in thousands*

Table IV-3(a) City Contribution Amounts (BOY) - Tier 1 With Elimination of SRBR			
	July 1, 2013		
	Basic	COLA	Total
City Service Normal Cost	\$ 23,956	\$ 7,543	\$ 31,500
City Reciprocity Normal Cost	317	99	416
<b>City Tier 1 Normal Cost</b>	<b>\$ 24,273</b>	<b>\$ 7,642</b>	<b>\$ 31,915</b>
City Deficiency Cost	\$ 31,095	\$ 36,329	\$ 67,424
City Golden Handshake Cost	1,071	261	1,332
<b>City Tier 1 UAL Cost</b>	<b>\$ 32,166</b>	<b>\$ 36,590</b>	<b>\$ 68,756</b>
 <b>Tier 1 City ARC</b>	 <b>\$ 56,440</b>	 <b>\$ 44,232</b>	 <b>\$ 100,671</b>

*Amounts in thousands*

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION

SECTION V  
ACCOUNTING STATEMENT INFORMATION

Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for accounting and financial reporting of pension information by public employee retirement systems.

The GASB No. 25 disclosure compares the actuarial liability computed for funding purposes to the actuarial value of assets to determine a funded ratio. The actuarial liability is determined assuming that members continue to terminate employment, retire, etc., in accordance with the actuarial assumptions. Liabilities are discounted at the assumed valuation interest rate of 7.50% per annum as of June 30, 2011 and June 30, 2012.

GASB Statement No. 25 requires the actuarial liability be compared with the actuarial value of assets for funding purposes. The relevant amounts as of June 30, 2011 and June 30, 2012 are presented in Table V-1.

GASB Statement No. 67 will replace GASB Statement No. 25 for System reporting effective for the Fiscal Year Ending June 30, 2014.

Table V-1 Federated City Employees' Retirement System			
Item	June 30, 2012	June 30, 2011	% Change
<b>GASB No. 25 Basis</b>			
1. Actuarial Liabilities			
a. Members Currently Receiving Payments	\$ 1,921,933	\$ 1,780,139	8.0%
b. Vested Terminated and Inactive Members	122,674	111,225	10.3%
c. Active Members	839,503	878,864	(4.5%)
d. Total Actuarial Liability	\$ 2,884,109	\$ 2,770,227	4.1%
2. Actuarial Value of Assets	\$ 1,762,973	\$ 1,788,660	-1.4%
3. Unfunded Actuarial Liability	\$ 1,121,136	\$ 981,568	14.2%
4. Ratio of Actuarial Value of Assets to Actuarial Liability (2)/(1)(d)	61.13%	64.57%	(3.5%)

*Amounts in thousands*

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION V  
ACCOUNTING STATEMENT INFORMATION**

Tables V-2 through V-5 are exhibits for use in the System's Comprehensive Annual Financial Report (CAFR). The Government Finance Officers Association (GFOA) recommends showing at least 6 years of experience in each of these exhibits. Table V-2 shows the Notes to Required Supplementary Information, Table V-3 presents an analysis of financial experience for the valuation year, Table V-4 presents the Solvency Test which shows the portion of actuarial liability covered by assets, and Table V-5 presents the Schedule of Funding Progress.

<b>Table V-2 Federated City Employees' Retirement System NOTES TO REQUIRED SUPPLEMENTARY INFORMATION</b>	
The information presented in the required supplementary schedules to the Financial Section of the CAFR was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.	
Valuation date	June 30, 2012
Actuarial funding method	Entry Age
Amortization method	Level percent of pay, closed, layered
Equivalent single amortization period	26.8 Years
Asset valuation method	5-year smoothing of return over or under expected returns
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases due to wage inflation	3.25%
Cost-of-living adjustments**	Tier 1 - 3.0% per year; Tier 2 - 1.5% per year
The actuarial assumptions used have been recommended by the actuary and adopted by the Federated Board in October 2011 based on the most recent review of Federated experience.	
The rate of employer contributions to Federated is composed of the normal cost, reciprocity normal cost, amortization of the unfunded actuarial liability and the Golden Handshake rate. The implementation of Tier 2 effective September 30, 2012 has been included. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability.	

\* Additional merit salary increases of 0.25% to 4.50% based on a participant's years of service are also assumed. These increases are not used in the amortization of the UAL.

\*\* Cost-of-living adjustments are fixed at 3% by the plan provisions for Tier 1 and do not fluctuate with actual inflation. For Tier 2, adjustments fluctuate with actual inflation and are capped at 1.5%.

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION V  
ACCOUNTING STATEMENT INFORMATION**

<b>Table V-3</b> <b>City of San Jose Federated City Employees' Retirement System</b>  <b>ANALYSIS OF FINANCIAL EXPERIENCE</b> <b>Gain (or Loss) in Actuarial Liability during Years Ended June 30</b> <b>Resulting from Differences between Assumed Experience</b> <b>and Actual Experience</b>	
<b>Type of Activity</b>	<b>Gain (or Loss) for Year Ending June 30, 2012</b>
Investment Income	\$ (119,331)
Combined Liability Experience	<u>2,023</u>
Gain (or Loss) during Year from Financial Experience	\$ (117,308)
Non-Recurring Gain (or Loss) Items	<u>-</u>
Composite Gain (or Loss) During Year	\$ (117,308)

*Amounts in thousands*

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION V  
ACCOUNTING STATEMENT INFORMATION**

Table V-4 City of San Jose Federated City Employees' Retirement System GASB SOLVENCY TEST								
Valuation Date June 30, *	Actuarial Liabilities for			Reported Assets**	Portion of Actuarial Liabilities Covered by Reported Assets			
	(A) Active Member Contributions	(B) Retirees, Beneficiaries and Other Inactives	(C) Remaining Active Members' Liabilities		(A)	(B)	(C)	
2012	\$ 234,619	\$ 2,044,607	\$ 604,883	\$ 1,762,973	100%	75%	0%	
2011	234,574	1,848,254	687,400	1,788,660	100%	84%	0%	
2010	242,944	1,504,698	762,716	1,729,413	100%	99%	0%	
2009	228,967	1,393,114	864,074	1,756,558	100%	100%	16%	
2007	214,527	1,003,001	743,415	1,622,851	100%	100%	55%	
2005	230,027	824,043	657,300	1,384,454	100%	100%	50%	
2003	224,875	635,092	451,724	1,280,719	100%	100%	93%	
2001	210,377	529,853	332,103	1,060,144	100%	100%	96%	

\* Results prior to 6/30/2010 calculated by prior actuary

*Amounts in thousands*

\*\* Actuarial Value of Assets

Table V-5 Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
June 30, 2012	\$ 1,762,973	\$ 2,884,109	\$ 1,121,136	61%	\$ 225,859	496%
June 30, 2011 <sup>4</sup>	1,788,660	2,770,227	981,567	65%	228,936	429%
June 30, 2010 <sup>3</sup>	1,729,413	2,510,358	780,945	69%	300,811	260%
June 30, 2009 <sup>2</sup>	1,756,558	2,486,155	729,597	71%	323,020	226%
June 30, 2007	1,622,851	1,960,943	338,092	83%	291,405	116%
June 30, 2005 <sup>1</sup>	1,384,454	1,711,370	326,916	81%	286,446	114%
June 30, 2003	1,280,719	1,311,691	30,972	98%	292,961	11%
June 30, 2001	1,060,144	1,072,333	12,189	99%	252,696	5%

Note: Results prior to 6/30/2010 were calculated by the prior actuary

*Amounts in thousands*

<sup>1</sup> Demographic assumption changes increased AL by \$83 million.

<sup>2</sup> Demographic and economic assumption changes, including reducing the investment return assumption from 8.25% to 7.75% increased the AL by \$229 million.

<sup>3</sup> Increasing the investment return assumption from 7.75% to 7.95% decreased the AL by \$59 million.

<sup>4</sup> Demographic and economic assumption changes, including reducing the investment return assumption from 7.95% to 7.5% increased the AL by \$188 million.

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**APPENDIX A  
MEMBERSHIP INFORMATION**

Table A-1 San Jose Federated City Employees' Retirement System Active Member Data			
	June 30, 2012	June 30, 2011	% Change
<b>Total</b>			
Count	3,076	3,274	(6.0%)
Average Current Age	46.0	45.9	0.2%
Average Service	12.4	12.3	0.8%
Annual Expected Pensionable Earnings	\$ 225,859,144	\$ 228,936,398	(1.3%)
Average Expected Pensionable Earnings	\$ 73,426	\$ 69,926	5.0%

Table A-2 San Jose Federated City Employees' Retirement System Non-Active Member Data						
	Count			Average Age		
	June 30, 2012	June 30, 2011	%Change	June 30, 2012	June 30, 2011	%Change
<b>Total</b>						
Retired & Disabled	3,143	2,979	5.5%	68.0	67.9	0.1%
Beneficiaries	459	449	2.2%	74.0	73.0	1.4%
Payee Total	3,602	3,428	5.1%	68.8	68.5	0.4%
Inactives	967	869	11.3%	45.3	45.6	-0.7%

Table A-3 San Jose Federated City Employees' Retirement System Non-Active Member Data						
	Total Annual Benefit*			Average Annual Benefit*		
	June 30, 2012	June 30, 2011	%Change	June 30, 2012	June 30, 2011	%Change
<b>Total</b>						
Retired & Disabled	\$ 132,923,227	\$ 121,366,908	9.5%	\$ 42,292	\$ 40,741	3.8%
Beneficiaries	9,140,022	8,501,980	7.5%	19,913	18,935	5.2%
Payee Total	\$ 142,063,249	\$ 129,868,888	9.4%	\$ 39,440	\$ 37,885	4.1%
Inactives**	\$ 13,409,571	\$ 11,556,900	16.0%	\$ 13,867	\$ 13,299	4.3%

\* Benefits provided in June 30 valuation data

\*\* For Inactives, benefit is calculated based on the data assumptions and methods outlined in Appendix A.



**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**APPENDIX A  
MEMBERSHIP INFORMATION**

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**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**APPENDIX A  
MEMBERSHIP INFORMATION**

**Table A-6  
San Jose Federated City Employees' Retirement System  
Retirees and Disabled by Attained Age and Benefit Effective Date  
as of June 30, 2012**

Benefit Effective Fiscal Year End	Age										Total
	Under 50	50 to 54	55 to 59	60 to 64	65 to 69	70 to 74	75 to 79	80 to 84	85 to 89	90 and up	
1968 to 1994	1	1	5	8	14	29	159	163	151	72	673
1995	1	1	1	2	0	14	10	8	3	1	41
1996	2	0	1	1	1	19	9	4	1	0	38
1997	1	0	0	1	7	41	14	4	2	0	78
1998	0	1	3	1	13	27	14	3	0	0	62
1999	0	0	2	4	34	23	10	6	0	1	80
2000	0	0	1	5	42	21	6	4	0	0	89
2001	0	1	2	3	43	29	5	2	0	0	85
2002	0	2	1	15	20	31	14	4	2	0	128
2003	1	0	4	38	43	25	7	2	1	0	121
2004	2	2	7	61	43	19	8	8	0	0	143
2005	0	0	11	77	43	31	20	3	0	8	175
2006	1	3	14	70	39	26	2	0	0	0	159
2007	1	1	10	81	35	15	3	3	0	8	157
2008	2	4	19	72	33	12	5	0	0	0	127
2009	4	4	65	36	31	6	0	8	0	8	146
2010	0	13	99	57	38	5	3	0	0	0	215
2011	1	25	147	113	53	14	2	1	0	8	356
2012	5	18	107	48	28	10	0	0	0	0	218
<b>Total</b>	<b>23</b>	<b>76</b>	<b>517</b>	<b>699</b>	<b>639</b>	<b>467</b>	<b>281</b>	<b>208</b>	<b>159</b>	<b>74</b>	<b>3,143</b>

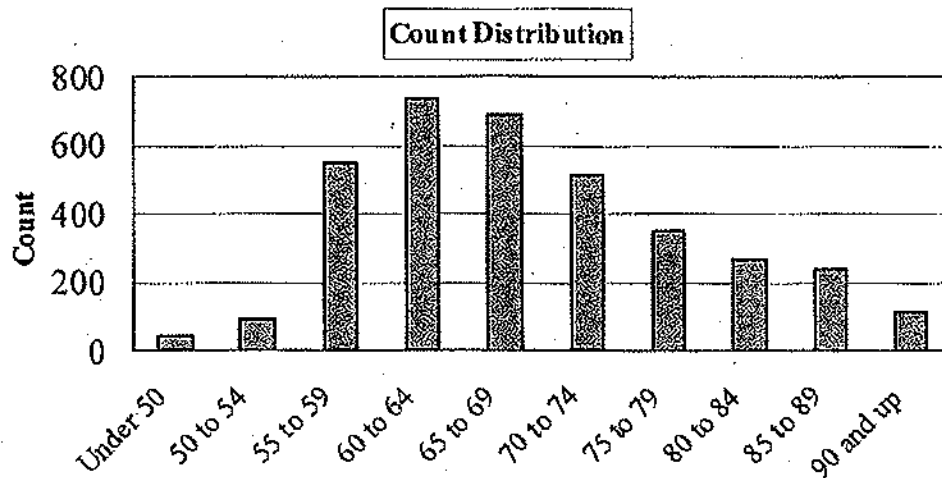
Average Age at Retirement/Disability 57.6  
Average Current Age 68.8  
Average Annual Pension \$ 42,292

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**APPENDIX A  
MEMBERSHIP INFORMATION**

<b>Table A-7 San Jose Federated City Employees' Retirement System Distribution of Retirees, Disabled Members, and Beneficiaries as of June 30, 2012</b>	
<b>Age</b>	<b>Count</b>
Under 50	41
50 to 54	90
55 to 59	551
60 to 64	740
65 to 69	692
70 to 74	513
75 to 79	355
80 to 84	270
85 to 89	239
90 and up	111
<b>Total</b>	<b>3,602</b>

**Chart A-1**

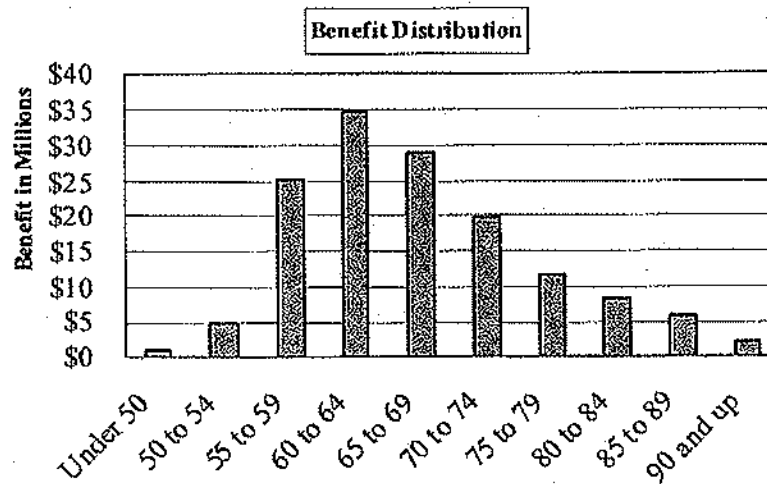


**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION**

**APPENDIX A  
MEMBERSHIP INFORMATION**

<b>Table A-8</b>	
<b>San Jose Federated City Employees' Retirement System</b>	
<b>Distribution of Retirees, Disabled Members,</b>	
<b>and Beneficiaries as of June 30, 2012</b>	
<b>Age</b>	<b>Annual Benefit</b>
Under 50	\$ 966,099
50 to 54	4,786,408
55 to 59	25,111,197
60 to 64	34,527,296
65 to 69	29,006,419
70 to 74	19,805,331
75 to 79	11,586,892
80 to 84	8,110,577
85 to 89	5,865,279
90 and up	2,297,751
<b>Total</b>	<b>\$ 142,063,249</b>

**Chart A-2**



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
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APPENDIX A  
MEMBERSHIP INFORMATION

**Data Assumptions and Methods**

In preparing our data, we relied without audit on information supplied by the San Jose Department of Retirement Services. This information includes, but is not limited to, plan provisions, employee data, and financial information. Our methodology for obtaining the data used for the valuation is based upon the following assumptions and practices:

- Records on the "Active" data file are considered to be Active if they do not have a reason for termination.
- Records on any of the data files are considered to be Inactive if they have a reason for termination of deferred vested or leave of absence/inactive.
- Records on the "Retiree" and "Beneficiary/QDRO" files are considered in pay status if they do not have a date of death, are not inactive and have not withdrawn from the plan.
- Service for actives that have no service amount is calculated to be the time from date of hire to the valuation date.
- Service for inactives that have no service amount is calculated to be the time from date of hire to date of termination.
- The most recent annual salary for actives is set to be "earnable income." If "earnable income" was not provided, then the most recent annual salary is calculated to be "compensation rate 2" multiplied by 26.
- The annual benefit for inactives is equal to 2.5% of final compensation per year of service, up to a maximum of 75% of final compensation. Members who terminated prior to June 30, 2001 have their final compensation adjusted for a three-year average rather than a 12-month average.
- We assume any member found in last year's "Retiree" file and not in this year's file has deceased without a beneficiary and should be removed from the valuation data.
- We assume all deceased members with payments continuing to a beneficiary have already been accounted for in the "Retiree" file.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION

APPENDIX B  
ACTUARIAL ASSUMPTIONS AND METHODS

**A. Actuarial Assumptions**

**1. Investment Return Assumption**

Assets are assumed to earn 7.5% net of investment.

**2. Interest Credited to Member Contributions**

3.00%, compounded annually.

**3. Administrative Expenses**

0.70% of payroll is added to the normal cost of the system for expected administrative expenses.

**4. Future SRBR transfers**

0.35% of the Market Value of Assets is added to the employer normal cost to estimate the average net transfer to the SRBR.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
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APPENDIX B  
ACTUARIAL ASSUMPTIONS AND METHODS

5. Salary Increase Rate

Wage inflation component: 3.25%

In addition, the following merit component is added based on an individual member's years of service:

Table B-1 Salary Merit Increases	
Years of Service	Merit/ Longevity
0	4.50%
1	3.50
2	2.50
3	1.85
4	1.40
5	1.15
6	0.95
7	0.75
8	0.60
9	0.50
10	0.45
11	0.40
12	0.35
13	0.30
14	0.25
15+	0.25

6. Family Composition

Percentage married is shown in the following Table B-2. Male retirees are assumed to be three years older than their partner, and female retirees are assumed to be two years younger than their partner.

Table B-2 Percentage Married	
Gender	Percentage
Males	80%
Females	60%

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
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**APPENDIX B  
ACTUARIAL ASSUMPTIONS AND METHODS**

**7. Rates of Termination**

Sample rates of termination are shown in the following Table B-3.

Table B-3 Rates of Termination			
Age	0 Years of Service	1-4 Years of Service	5 or more Years of Service
20	20%	10.00%	5.50%
25	20	10.00	5.30
30	20	9.50	4.85
35	20	7.20	4.20
40	20	5.60	3.00
45	20	4.60	1.85
50	20	4.00	1.75
55	20	4.00	0.00
60	20	4.00	0.00
65	0	0.00	0.00

\* Withdrawal/termination rates do not apply once a member is eligible for retirement

20% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.25% pay increases per year.

**8. Rates of Refund**

Sample rates of vested terminated employees electing a refund of contributions are shown in the following Table B-4.

Table B-4 Rates of Refund	
Age	Refund
20	40.0%
25	30.0
30	25.0
35	20.0
40	15.0
45	10.0
50	4.0
55	0.0



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
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ACTUARIAL ASSUMPTIONS AND METHODS

9. Rates of Disability

Sample disability rates of active participants are provided in Table B-5.

Table B-5 Rates of Disability at Selected Ages	
Age	Disability
20	0.030%
25	0.033
30	0.056
35	0.098
40	0.162
45	0.232
50	0.302
55	0.376
60	0.455
65	0.504
70	0.000

50% of disabilities are assumed to be duty related, and 50% are assumed to be non-duty.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
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APPENDIX B  
ACTUARIAL ASSUMPTIONS AND METHODS

10. Rates of Mortality for Healthy Lives

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2015 using scale AA and setback two years. The resulting rates are used for all age cohorts.

Table B-6 Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	Male	Female
20	0.0237%	0.0152%
25	0.0297	0.0155
30	0.0365	0.0196
35	0.0585	0.0344
40	0.0881	0.0484
45	0.1100	0.0747
50	0.1460	0.1092
55	0.2154	0.1841
60	0.4140	0.3639
65	0.8104	0.7094
70	1.4464	1.2471
75	2.4223	2.0673
80	4.3489	3.3835

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
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APPENDIX B  
ACTUARIAL ASSUMPTIONS AND METHODS

11. Rates of Mortality for Retired Disabled Lives

Mortality rates for disabled retirees are based on the CALPERS ordinary disability mortality tables from their 2000-04 study for miscellaneous employees.

Table B-7 Rates of Mortality for Disabled Lives at Selected Ages		
Age	Male	Female
20	0.664%	0.478%
25	0.719	0.492
30	0.790	0.512
35	0.984	0.548
40	1.666	0.674
45	1.646	0.985
50	1.632	1.245
55	1.936	1.580
60	2.293	1.628
65	3.174	1.969
70	3.870	3.019
75	6.001	3.915
80	8.388	5.555

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
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**APPENDIX B  
ACTUARIAL ASSUMPTIONS AND METHODS**

**12. Rates of Retirement**

Rates of retirement for Tier 1 members are based on age according to the following Table B-8 – Tier 1.

<b>Table B-8 – Tier 1 Rates of Retirement by Age and Service</b>		
<b>Age</b>	<b>Less than 30 Years of Service</b>	<b>30 or more Years of Service</b>
50	0.0%	60.0%
51	0.0	60.0
52	0.0	60.0
53	0.0	60.0
54	0.0	60.0
55	17.5	50.0
56	8.5	50.0
57	8.5	50.0
58	8.5	50.0
59	9.5	50.0
60	9.5	50.0
61	16.0	50.0
62	16.0	50.0
63	16.0	50.0
64	16.0	50.0
65	25.0	60.0
66	25.0	60.0
67	25.0	60.0
68	25.0	60.0
69	25.0	60.0
70 & over	100.0	100.0

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
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**APPENDIX B**  
**ACTUARIAL ASSUMPTIONS AND METHODS**

Rates of retirement for Tier 2 members are based on age according to the following Table B-8 – Tier 2.

Table B-8 – Tier 2 Rates of Retirement by Age and Service		
Age	Less than 32.5 Years of Service	32.5 or more Years of Service
55	4.0%	7.0%
56	3.0	6.0
57	3.0	6.0
58	3.0	6.0
59	5.0	10.0
60	7.5	15.0
61	10.0	25.0
62	10.0	25.0
63	10.0	25.0
64	10.0	25.0
65	40.0	70.0
66	25.0	50.0
67	25.0	50.0
68	25.0	50.0
69	25.0	50.0
70 & over	100.0	100.0

**13. Deferred Member Benefit**

The benefit was estimated based on information provided by the Department of Retirement Services. The data used to value the estimated deferred benefit were credited service, date of termination, and last pay rate. Based on the data provided, highest average salary was estimated.

**14. Other**

The contribution requirements and benefit values of a plan are calculated by applying actuarial assumptions to the benefit provisions and member information, using the actuarial funding methods described in the following section.

Actual experience of Federated will not coincide exactly with assumed experiences, regardless of the choice of the assumptions, the skill of the actuary or the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends, but not random year-to-year fluctuations.

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
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**APPENDIX B  
ACTUARIAL ASSUMPTIONS AND METHODS**

**15. Changes Since Last Valuation**

None.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION

**APPENDIX B**  
**ACTUARIAL ASSUMPTIONS AND METHODS**

**B. Actuarial Methods**

**1. Actuarial Funding Method**

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs and represents the target amount of assets the System should have as of the valuation date to fund the benefits as a level percentage of payroll.

**2. Asset Valuation Method**

For the purpose of determining the Employer's contribution, an actuarial value of assets is used. The asset smoothing method dampens the volatility in asset values that occur because of fluctuations in market conditions, resulting in a smoother pattern of contribution rates.

The actuarial value of assets is calculated by recognizing 20% of the difference in each of the prior four years of actual investment returns compared to the expected return on the market value of assets.

**3. Amortization Method**

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2009 is amortized as a level percentage of Tier 1 and Tier 2 pay over a closed 30-year period commencing June 30, 2009. Actuarial gains and losses, assumption changes, and plan changes are amortized as a level percentage of Tier 1 and Tier 2 pay over 20-year periods beginning with the valuation date in which they first arise. To remain a level percentage of expected future payroll, each annual amortization payment increases by the payroll growth assumption of 3.25%.

**4. Supplemental Retiree Benefit Reserve (SRBR)**

Beginning with last year's valuation, the SRBR balance is added to the actuarial liability and the assets are included in the actuarial value of assets. In prior valuations, the SRBR balance was excluded from both the actuarial liability and the actuarial value of assets.

**5. Contributions**

At its November 2010 meeting, the Board adopted a policy setting the City's contribution to be the greater of the dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by

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**APPENDIX B  
ACTUARIAL ASSUMPTIONS AND METHODS**

applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. The City and Member contributions determined by a valuation become effective for the fiscal year commencing one year after the valuation date.



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
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APPENDIX C  
SUMMARY OF PLAN PROVISIONS  
TIER 1

1. Membership Requirement

Participation in the Plan is immediate upon the first day of full-time employment for members hired before September 30, 2012.

2. Final Compensation

Members who separated from city service prior to June 30, 2001

The highest average annual compensation earnable during any period of three consecutive years.

Members who separated from city service on or after June 30, 2001

The highest average annual compensation earnable during any period of twelve consecutive months.

3. Credited Service

One year of service credit is given for 1,739 or more hours of Federated city service rendered in any calendar year. A partial year (fraction with the numerator equal to the hours worked, and the denominator equal to 1,739) is given for each calendar year with less than 1,739 hours worked.

4. Member Contributions

Member

The amount needed to fund 3/11 of benefits accruing for the current year. These contributions are credited with interest at 3.0% per year, compounded annually.

Employer

The Employer contributes the remaining amounts necessary to maintain the soundness of the Retirement System.

5. Service Retirement

Eligibility

Age 55 with five years of service, or any age with 30 years of service.

Benefit -- Member

2.5% of Final Compensation for each year of credited service, subject to a maximum of 75% of Final Compensation.

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APPENDIX C  
SUMMARY OF PLAN PROVISIONS  
TIER 1

Benefit - Survivor

50% of the service retirement benefit paid to a qualified survivor.

6. Service-Connected Disability Retirement

Eligibility

No age or service requirement.

Benefit - Member

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. Workers' Compensation benefits are generally offset from the service-connected benefits under this system.

Benefit - Survivor

50% of the disability retirement benefit paid to a qualified survivor.

7. Non-Service Connected Disability Retirement

Eligibility

Five years of service.

Benefit - Member

*Members who were hired prior to September 1, 1998:*

The amount of the service-connected benefit reduced by 0.5% for each year that the disability age preceded 55.

*Members who were hired on or after September 1, 1998:*

20% of Final Compensation, plus 2% of Final Compensation for each year of credited service between six and 16 years, plus 2.5% of Final Compensation for each year of credited service in excess of 16 years, subject to a maximum of 75% of Final Compensation.

Benefit - Survivor

50% of the disability retirement benefit paid to a qualified survivor.

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APPENDIX C  
SUMMARY OF PLAN PROVISIONS  
TIER 1

8. Death While an Active Employee

Less than five Years of Service, or No Qualified Survivor

Lump sum benefit equal to the accumulated refund of all employee contributions with interest, plus one month of salary for each year of service, up to a maximum of six years.

Five or more Years of Service

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. The benefit is payable until the spouse or registered domestic partner marries or establishes a domestic partnership. If the member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the member's spouse or registered domestic partner.

9. Withdrawal Benefits

Less than five Years of Service

Lump sum benefit equal to the accumulated employee contributions with interest.

Five or more years of credited service

The amount of the service retirement benefit, payable at age 55.

10. Additional Post-retirement Death Benefit

A death benefit payable as a lump sum equal to \$500 will be paid to a qualified survivor upon the member's death.

11. Post-retirement Cost-of-Living Benefit

Benefits are increased every April 1 by 3.0%, regardless of actual inflation.

12. Supplemental Retiree Benefit Reserve (SRBR)

Each year, 10% of Excess Earnings, if any, are transferred to the SRBR, and the SRBR balance is credited with interest equal to the actual rate of return up to the actuarially assumed investment return, but not less than \$0. The interest credited to the SRBR balance is distributed to retirees and beneficiaries along with any balance (before interest crediting) in excess of the minimum balance established by the Board (\$7,000 per retiree/beneficiary).

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION

APPENDIX C  
SUMMARY OF PLAN PROVISIONS  
TIER 2

**1. Membership Requirement**

Any person who is hired, rehired or reinstated by the City on or after September 30, 2012.

**2. Final Compensation**

The average annual compensation earnable during the highest three consecutive years of service. Final compensation only includes base pay, excluding premium pay and any other additional compensation.

**3. Credited Service**

One year of service credit is given for 2,080 or more hours of Federated city service rendered in any calendar year. A partial year (fraction with the numerator equal to the hours worked, and the denominator equal to 2,080) is given for each calendar year with less than 2,080 hours worked.

**4. Member Contributions**

50% of total Tier 2 contributions to the pension plan, including, but not limited to administrative expenses, normal cost and unfunded actuarial liability.

**5. Unreduced Service Retirement**

**Eligibility**

Age 65 with five years of service.

**Benefit - Member**

2.0% of Final Compensation for each year of credited service, subject to a maximum of 65% of Final Compensation.

**Benefit - Survivor**

Single life annuity.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION

APPENDIX C  
SUMMARY OF PLAN PROVISIONS  
TIER 2

6. Early Service Retirement

Eligibility

Age 55 with five years of service.

Benefit – Member

Reduced benefit actuarially equivalent to the unreduced service retirement benefit commencing at age 65. The early retirement reduction is applied to the benefit after the application of the maximum of 65% of final compensation.

7. Service-Connected Disability Retirement

Eligibility

No age or service requirement.

Benefit - Member

Monthly benefit equivalent to 50% of Final Compensation less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

8. Non-Service Connected Disability Retirement

Eligibility

Five years of service.

Benefit - Member

2.0% of Final Compensation for each year of credited service, subject to a minimum of 20% of Final Compensation and a maximum of 50% of Final Compensation less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

9. Death Before Retirement

If death occurs before retirement eligibility is reached

Lump sum benefit equal to the accumulated refund of all employee contributions with interest.

If death occurs after retirement eligibility is reached

Benefit equivalent to what the employee would have received if retired at the time of death.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION

APPENDIX C  
SUMMARY OF PLAN PROVISIONS  
TIER 2

Employees killed in the line of duty

Monthly benefit equivalent to 50% of Final Compensation.

**10. Withdrawal Benefits**

Less than five Years of Service

Lump sum benefit equal to the accumulated employee contributions with interest.

Five or more years of credited service

The amount of the service retirement benefit, actuarially reduced for early retirement, and payable when retirement eligibility is reached.

**11. Benefit Forms**

Annuity benefits are paid in the form of a life annuity or an actuarially equivalent annuity with 50%, 75% or 100% continuance to a survivor.

**12. Post-retirement Cost-of-Living Benefit**

Benefits are increased every April 1 by the change in the December CPI-U for San Jose-San Francisco-Oakland, subject to a cap of 1.5%. The first COLA after retirement shall be prorated based on the number of months retired.

**Note:** The summary of major plan provisions is designed to outline principal plan benefits. If the Department of Retirement Services should find the plan summary not in accordance with the actual provisions, the actuary should immediately be alerted so the proper provisions are valued.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION

**APPENDIX D  
GLOSSARY OF TERMS**

**1. Actuarial Liability**

The Actuarial Liability is the difference between the present value of all future system benefits and the present value of total future normal costs. This is also referred to by some actuaries as the "accrued liability" or "actuarial accrued liability."

**2. Actuarial Assumptions**

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement rate or rates of investment income and salary increases. Demographic assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

**3. Accrued Service**

Service credited under the System which was rendered before the date of the actuarial valuation.

**4. Actuarial Equivalent**

A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.

**5. Actuarial Funding Method**

A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of a retirement system benefit between future normal cost and actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

**6. Actuarial Gain (Loss)**

The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

**7. Actuarial Present Value**

The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
JUNE 30, 2012 ACTUARIAL VALUATION

APPENDIX D  
GLOSSARY OF TERMS

**8. Amortization**

Paying off an interest-discounted amount with periodic payments of interest and principal—as opposed to paying off with a lump-sum payment.

**9. Annual Required Contribution (ARC) under GASB 25**

The Governmental Accounting Standards Board (GASB) Statement No. 25 defines the Plan Sponsor's "Annual Required Contribution" (ARC) that must be disclosed annually. The System Employer computed contribution rate for FYE 2014 meets the parameters of GASB 25.

**10. Normal Cost**

The actuarial present value of retirement system benefits allocated to the current year by the actuarial funding method.

**11. Set back/Set forward**

Set back is a period of years that a standard published table (i.e., mortality) is referenced backwards in age. For instance, if the set back period is two years and the participant's age is currently 40, then the table value for age 38 is used from the standard published table. It is the opposite for set forward. A system would use set backs or set forwards to compensate for mortality experience in their work force.

**12. Unfunded Actuarial Liability (UAL)**

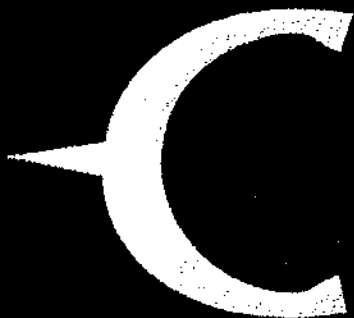
The unfunded actuarial liability represents the difference between actuarial liability and valuation assets. This value is sometimes referred to as "unfunded actuarial accrued liability."

Most retirement systems have unfunded actuarial liabilities. They typically arise each time new benefits are added and each time experience losses are realized.

The existence of unfunded actuarial accrued liability is not in itself an indicator of poor funding. Also, unfunded actuarial liabilities do not represent a debt that is payable today. What is important is the ability of the plan sponsor to amortize the unfunded actuarial liability and the trend in its amount (after due allowance for devaluation of the dollar).



**EXHIBIT 59**



**City of San José Police and Fire  
Department Retirement Plan**

**June 30, 2012  
Actuarial Valuation**

**Produced by Cheiron**

**December 2012**



Classic Values, Innovative Advice

**GURZA000838**

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Classic Values, Innovative Advice

## LETTER OF TRANSMITTAL

December 21, 2012

Board of Administration  
City of San José Police and Fire Department Retirement Plan  
1737 North 1<sup>st</sup> Street, Suite 580  
San José, California 95112

Dear Members of the Board:

The purpose of this report is to present the June 30, 2012 actuarial valuation of the City of San José Police and Fire Department Retirement Plan ("Plan"). This report is for the use of the Board of Administration and its auditors in preparing financial reports in accordance with applicable laws and accounting requirements.

On June 5, 2012, voters approved Measure B which would make a number of changes to the Plan. We understand that most of the changes will not be implemented until a court rules on their legality, and to date, no implementing ordinances have been adopted by the City. Consequently, the provisions of Measure B are not reflected in this valuation.

The key results of the valuation are shown in the table below.

Summary of Key Valuation Results		
Valuation Date	6/30/2012	6/30/2011
Discount Rate	7.25%	7.50%
Actuarial Liability (AL)	\$ 3,430.3	\$ 3,196.0
Actuarial Value of Assets (AVA)	\$ 2,703.5	\$ 2,685.7
Unfunded Actuarial Liability (UAL)	\$ 726.8	\$ 510.3
AVA Funded Ratio	78.8%	84.0%
Market Value of Assets (MVA)	\$ 2,578.9	\$ 2,627.7
MVA Funded Ratio	75.2%	82.2%
Fiscal Year Ending	6/30/2014	6/30/2013
Aggregate Contribution Rates		
Member		
Normal Cost Rate	11.6%	11.0%
UAL Rate	0.1%	0.1%
Total Member Rate	11.7%	11.2%
City		
Normal Cost Rate	34.7%	33.4%
UAL Rate	35.8%	24.3%
Total City Rate	70.5%	57.7%
Expected Payroll	\$ 188.0	\$ 190.7
City Contribution Amounts		
Beginning of Year	\$ 128.0	\$ 106.1
Middle of Year	\$ 132.6	\$ 110.1

Dollar amounts in millions



The City contribution rates and amounts shown above are before adjusting for the offset due to the charge to the SRBR. This charge reduces the City's contribution rate for Fiscal Year Ending (FYE) in 2013 by 0.46% and approximately \$0.8 million as of the beginning of the fiscal year, and reduces the City's contribution rate for FYE 2014 by 0.82% and approximately \$1.5 million as of the beginning of the fiscal year.

At its December 2012 meeting, the Board reduced its investment return assumption from the 7.50% that was used in the prior valuation to 7.25%. The reduction in the assumption increased the measure of actuarial liability by approximately \$108 million and the normal cost rate by approximately 2.5% of payroll. More details on the impact of this change and the experience during the year are found in the remainder of the report.

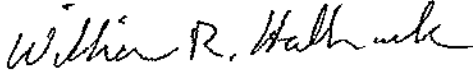
In preparing our report, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

We hereby certify that, to the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This actuarial valuation report was prepared for the Board of Administration for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This actuarial valuation report is not intended to benefit any third party, and Cheiron assumes no duty of liability to any such party.

Sincerely,  
Cheiron

  
Gege Kalwarski, FSA, FCA, EA, MAAA  
Principal Consulting Actuary

  
William R. Hallmark, ASA, FCA, EA, MAAA  
Consulting Actuary

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION I  
BOARD SUMMARY**

The primary purpose of this actuarial valuation is to report, as of the valuation date, on the following:

- The financial condition of the City of San José Police and Fire Department Retirement Plan;
- Past and expected trends in the financial condition of the Plan,
- The Members' and City's contribution rates for the Fiscal Year Ending June 30, 2014, and
- Information required by the Governmental Accounting Standards Board (GASB).

The principal valuation results are summarized in this section, including a brief description of the basis upon which the contributions were determined and an examination of the current financial condition of the Plan. In addition, the key historical trends and projected financial outlook for the Plan are reviewed.

**A. Valuation Basis**

Member contribution rates are set equal to the sum of:

- A portion (3/11<sup>th</sup>) of the Entry Age Normal Cost Rate (excluding reciprocity),
- A historical share of the assumed administrative expenses, and
- A portion of the UAL Rate attributable to certain benefit improvements.

The Plan's funding policy sets the City's contribution rates equal to the sum of:

- A portion (8/11<sup>th</sup>) of the Entry Age Normal Cost Rate (excluding reciprocity),
- The Reciprocity Rate which is the prefunding of the liability for reciprocal benefits with certain other California public pension plans,
- A historical share of the assumed administrative expenses,
- The assumed annual cost of the SRBR, and
- The remaining portion of the UAL Rate.

Beginning with the June 30, 2011 valuation, any changes in methods or assumptions are amortized over a closed 20-year period, and all other portions of the UAL are amortized over a closed 16-year period from the valuation in which they are first recognized.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

SECTION I  
BOARD SUMMARY

**B. Current Financial Condition**

On the following pages, we summarize the key results of the June 30, 2012 valuation and how they compare to the results from the June 30, 2011 valuation.

**1. Membership:**

As shown in Table I-1 below, total membership declined 0.6% from 2011 to 2012. Terminated vested membership decreased by 27.2% due to the large number of terminations that happened just before the June 30, 2011 valuation and who subsequently took a refund of contributions. There was also a small reduction in total payroll caused by a decrease in both the number of overall active members and average pay per member.

Table I-1 Total Membership			
Item	June 30, 2012	June 30, 2011	% Change
Active Members			
Police	1,076	1,122	-4.1%
Fire	642	613	4.7%
Total Active Members	1,718	1,735	-1.0%
Terminated Vesteds	166	228	-27.2%
Service Retirees	861	824	4.5%
Disabled Retirees	829	812	2.1%
Beneficiaries	252	249	1.2%
Total Members	3,826	3,848	-0.6%
Active Member Payroll			
Police	\$ 116.5	\$ 121.7	-4.3%
Fire	71.5	69.0	3.6%
Total Payroll	\$ 188.0	\$ 190.7	-1.5%
Average Pay per Active Member			
Police	\$ 108,228	\$ 108,499	-0.2%
Fire	\$ 111,378	\$ 112,546	-1.0%
Total Average Pay	\$ 109,405	\$ 109,929	-0.5%

Total payroll amounts in millions

**2. Assets and Liabilities:**

Table I-2 on the following page compares the assets, liabilities, UAL, and funding ratios between June 30, 2012 and June 30, 2011. The key results shown in Table I-2 indicate that the total actuarial liability increased by 7.3% and the market value of assets

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

**SECTION I  
BOARD SUMMARY**

decreased by 1.9%. The Plan employs an asset smoothing method which dampens investment market volatility. For this year the smoothed value of assets (called the actuarial value of assets) increased by 0.7%. The ratio of the actuarial value of assets to the market value of assets increased from 102% to 105%, indicating that the deferred losses are greater than the deferred gains. Finally, due to the investment loss and the reduction of the investment return assumption from 7.5% to 7.25%, the overall funding deficit (actuarial value of assets less actuarial liability) increased from \$510.3 million to \$726.8 million, resulting in a decrease in the funding ratio from 84.0% to 78.8%. Based on the market value of assets, the funding ratio decreased from 82.2% to 75.2%.

Table I-2 Assets and Liabilities			
Item	June 30, 2012	June 30, 2011	% Change
Actuarial Liability			
Actives	\$ 1,087.5	\$ 1,022.0	6.4%
Terminated Vesteds	28.5	26.7	6.9%
Service Retirees	1,319.3	1,210.1	9.0%
Disabled Retirees	865.5	812.6	6.5%
Beneficiaries	96.9	91.3	6.1%
SRBR Balance	32.5	33.4	-2.7%
Total Actuarial Liability	\$ 3,430.3	\$ 3,196.0	7.3%
Market Value of Assets	\$ 2,578.9	\$ 2,627.7	-1.9%
Actuarial Value of Assets	\$ 2,703.5	\$ 2,685.7	0.7%
Unfunded Actuarial Liability	\$ 726.8	\$ 510.3	42.4%
Funding Ratio – Market Value	75.2%	82.2%	-8.6%
Funding Ratio – Actuarial Value	78.8%	84.0%	-6.2%

Amounts in millions

3. Contributions:

Table I-3 shows sources for the change in the City contribution rate from the rate that was calculated in the prior report and the rate that was expected to be calculated in this report. The plan experience slightly reduced the City's contribution compared to what had been expected based on the prior valuation, but the change in the investment return assumption increased the contribution by 10 million dollars.



CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

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<p style="text-align: center;"><b>Table I-3</b> <b>Reconciliation of Changes in Contribution Rates and Amounts</b></p>						
	Member Rate	City Normal Cost	City UAL Rate	City Total Rate	Projected Payroll	BOY City Contribution Amount
1. FYE 2013 Contribution	11.2%	33.4%	24.3%	57.7%	\$ 190.7	\$ 106.1
2. Expected FYE 2014 Contribution	11.2%	33.7%	30.6%	64.3%	\$ 190.7	\$ 118.2
3. Changes Due to Plan Experience						
a. Investment experience	0.0%	0.0%	2.8%	2.8%	\$ 190.7	\$ 5.1
b. SRBR	0.0%	-0.3%	-0.4%	-0.6%	\$ 190.7	\$ (1.2)
c. Demographic experience	-0.2%	-0.4%	-1.5%	-1.9%	\$ 190.7	\$ (3.6)
d. Payroll Change	0.0%	0.0%	0.5%	0.5%	\$ 188.0	\$ (0.9)
e. Assumption Change	0.7%	1.8%	3.8%	5.6%	\$ 188.0	\$ 10.3
f. Subtotal	0.5%	1.1%	5.2%	6.3%	\$ 188.0	\$ 9.8
4. FYE 2014 Contribution	11.7%	34.7%	35.8%	70.5%	\$ 188.0	\$ 128.0

*Dollar amounts in millions*

The contribution rates and amounts shown above are prior to adjustment for the offset in City contribution rates and amounts due to the charge to the SRBR. This charge applies whenever the City's contribution rate increases due to poor investment performance, and it reduces the City's contribution rate for FYE 2013 by 0.46% and approximately \$0.8 million, and reduces the City's contribution rate for FYE 2014 by 0.82% and approximately \$1.5 million. In Section IV of this report, we provide more detail on the development of this contribution rate.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION**

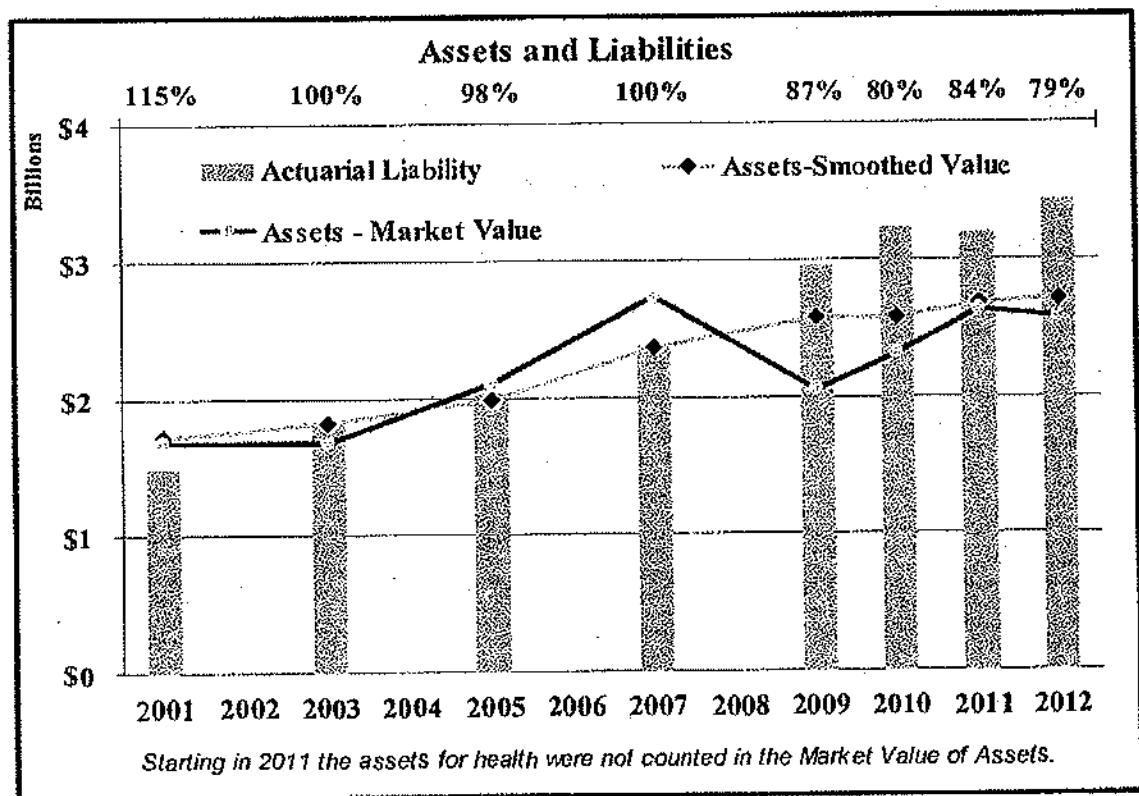
**SECTION I  
BOARD SUMMARY**

**C. Historical Trends**

Despite the fact that most of the attention given to the valuation is with respect to the most recently computed unfunded actuarial liability, funding ratio, and contribution rates, it is important to remember that each valuation is merely a snapshot of the long-term progress of a pension fund. It is more important to judge a current year's valuation result relative to historical trends, as well as trends expected into the future.

The chart below shows the historical trends for assets (both market and smoothed) versus the actuarial liability, and also shows the progress of the funding ratios since 2001. From 2001 to 2012, (with the exceptions of 2007 and 2011), the funding ratio has declined primarily because the plan has experienced lower than expected investment returns and has reduced its assumption of future investment returns.

**Assets and Liabilities 2001-2012**



	2001	2003	2005	2007	2009	2010	2011	2012
Funded Ratio	114.8%	100.2%	97.8%	99.7%	86.7%	79.8%	84.0%	78.8%
UAL/(Surplus)	\$ (221.1)	\$ (3.1)	\$ 44.3	\$ 6.6	\$ 393.9	\$ 653.8	\$ 510.3	\$ 726.8

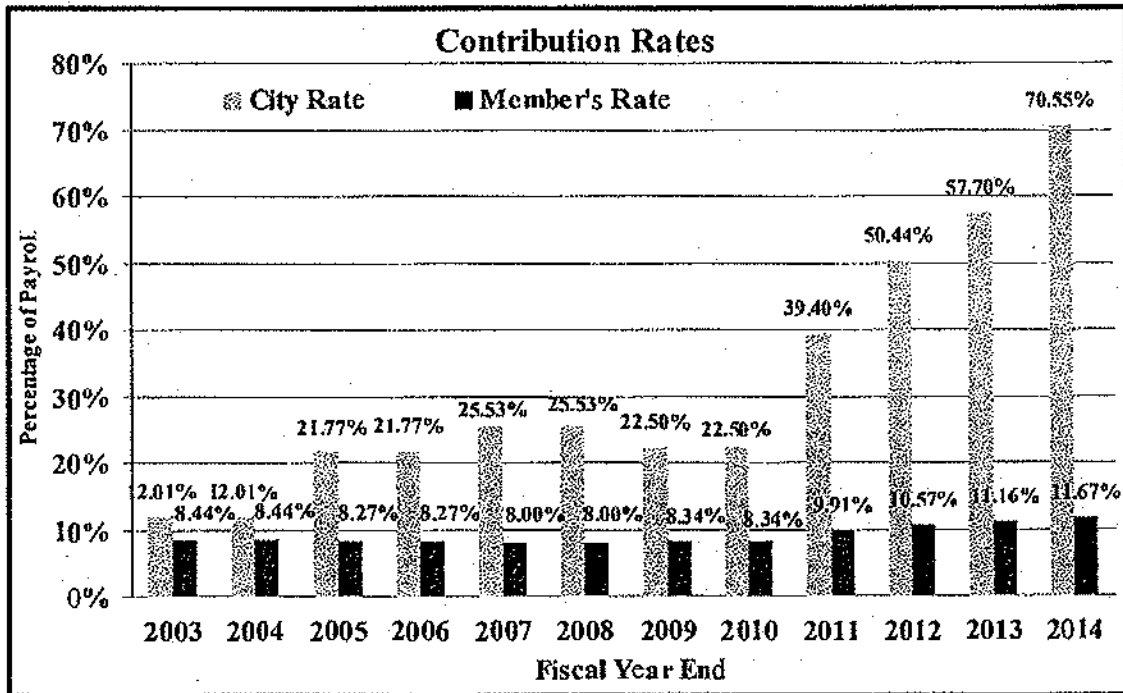
Amounts in millions

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

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The chart below shows the historical trends for the Plan's contribution rates since the Fiscal Year Ending June 30, 2003. All information shown prior to the Fiscal Year Ending June 30, 2013 was calculated by the prior actuary.

Employer and Member Contribution Rates for FYE 2003 - 2014



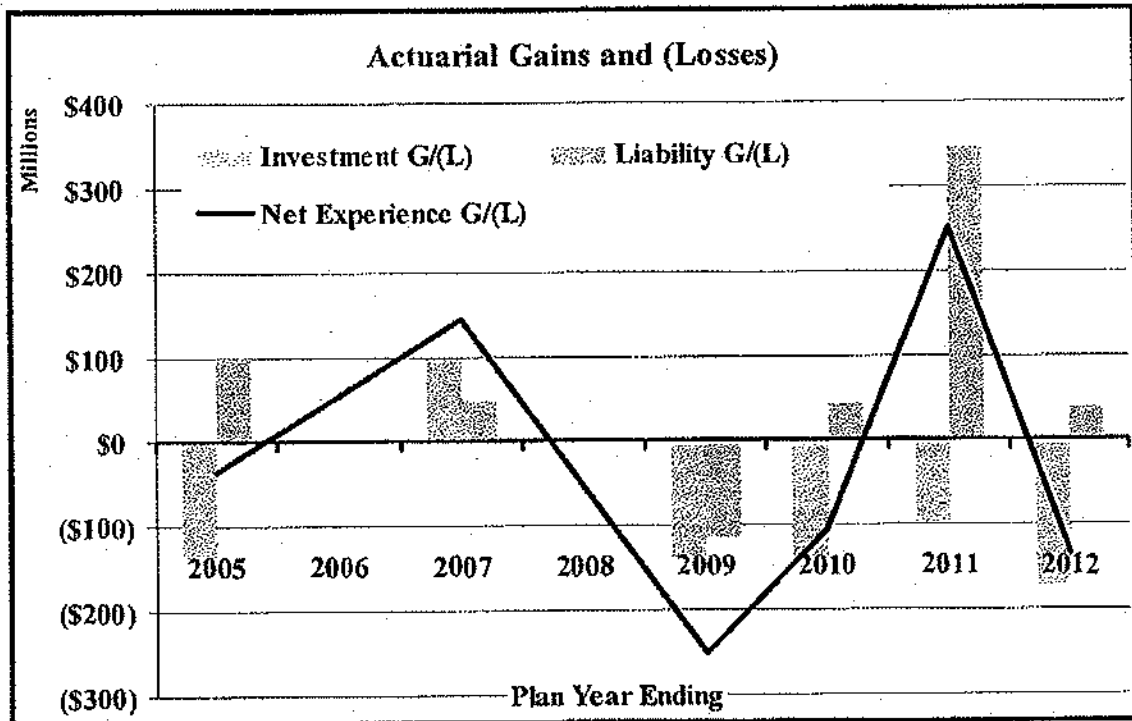
The key information in this chart is the increase in the employer contribution rate since FYE 2010. This increase is largely due to the poor investment earnings during 2008 and 2009, but lower discount rates were also adopted effective for contribution rates in FYE 2012, 2013, and 2014.

The chart on the following page represents the pattern of the Plan's actuarial gains and losses, broken into the investment and liability components. The chart does not include any changes in the Plan's assets and liabilities attributable to changes to methods, procedures or assumptions.

CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

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BOARD SUMMARY

SJPF Historical Gain/(Loss) 2005-2012



The key insights from this chart are:

- Investment losses (gold bars) in 2005 are partially offset by investment gains from 2006 and 2007. From 2008 to 2012, there were additional investment losses. Since the actuarial value of assets only recognizes a portion of the recent market losses, additional investment losses on the actuarial value of assets are expected next year.
- On the liability side, five of the six valuations showed actuarial gains with 2009 as the only exception. The actuarial gain in 2012 is primarily due to a combination of salary and termination experience offset somewhat by retirement experience.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION I  
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**D. Projected Financial Trends**

The analysis of projected financial trends is an important part of this valuation. In this Section, projections of the June 30, 2012 valuation results are used to illustrate the future outlook for the Plan in terms of benefit security (assets compared to liabilities) and the expected progression of contributions.

In the charts that follow, we project assets and liabilities, the pay down of UAL, and City contributions on two different bases:

- 1) Assuming no gains or losses compared to the assumptions (i.e., 7.25% return for 2012-13 and each and every year that follows along with the assumed transfer to the SRBR in each year), and
- 2) Assuming returns shown in the table below. These are rates of return that vary each year but over the projection period equal on average the assumed 7.25% return. We do this in order to illustrate the impact of volatility because the Plan's returns will never be level each and every year.

<b>FYE</b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>
<b>Return</b>	20.0%	8.0%	3.0%	20.0%	-4.0%	18.0%	13.0%	9.0%	-7.0%	16.0%
<b>FYE</b>	<b><u>2023</u></b>	<b><u>2024</u></b>	<b><u>2025</u></b>	<b><u>2026</u></b>	<b><u>2027</u></b>	<b><u>2028</u></b>	<b><u>2029</u></b>	<b><u>2030</u></b>	<b><u>2031</u></b>	<b><u>2032</u></b>
<b>Return</b>	9.0%	-8.0%	8.0%	13.0%	16.0%	-8.0%	-16.0%	30.0%	25.0%	-1.0%

Please note that the investment returns shown above were selected solely to illustrate the impact of investment volatility on the pattern of funded status and City contribution rates and amounts. They are not intended to be predictive of actual future contribution rates or funded status or even to represent a realistic pattern of investment returns.

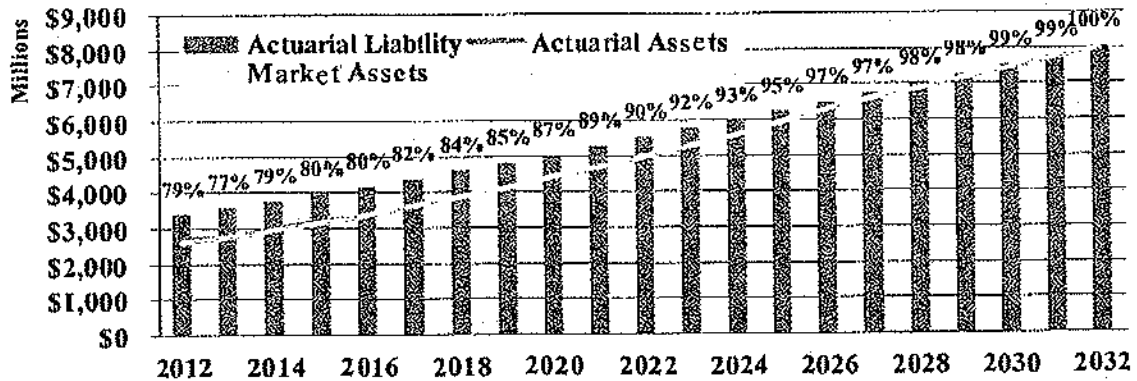
**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
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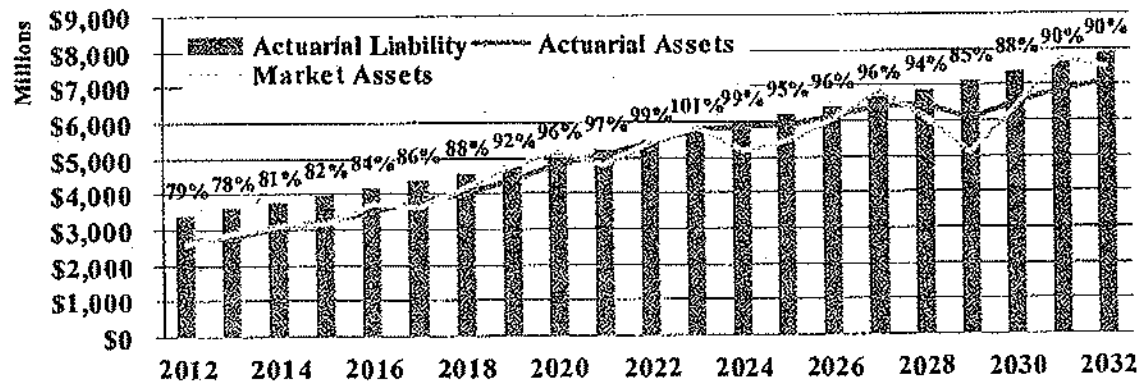
**Projection Set 1: Assets and Liabilities**

The chart below shows asset measures (green and orange lines) compared to the actuarial liability (gray bars). At the top of each chart is the progression of funding ratios. The key insight from this chart is the steady projected improvement in funded ratios in the first chart, and how varying investment returns can impact the progression of funding ratios. In addition, even though the varying returns produce the same average return, the funded status at the end of the projection is only 90% compared to 100% with the 7.25% return each year.

**Chart 1: Projection of Assets and Liabilities, 7.25% return each year**



**Chart 2: Projection of Assets and Liabilities, varying returns averaging 7.25% over time**



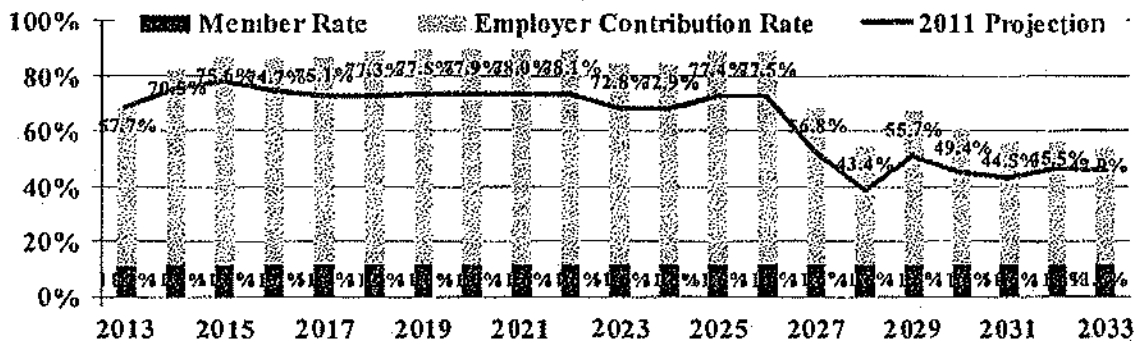
**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION**

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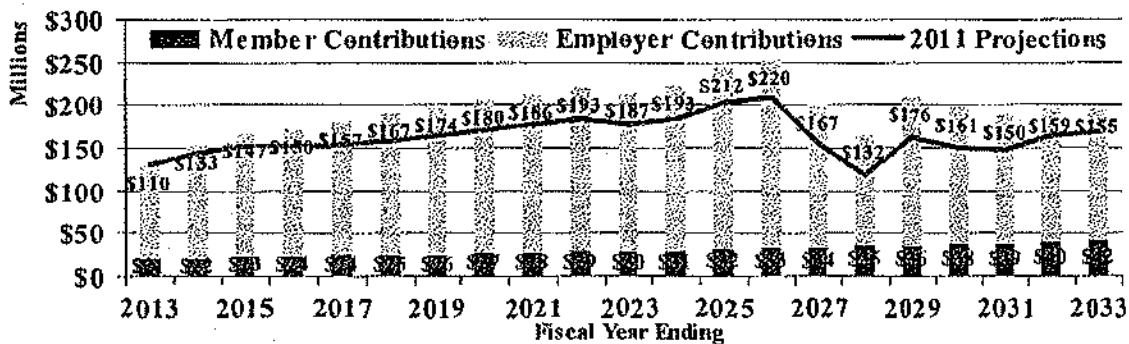
**Projection Set 2: Projected Employer Contribution Rate**

The chart below shows projected member contribution rates (teal bars) and City contribution rates (gold bars) compared to the similar projection based on the 2011 valuation (red line). City contribution rates are expected to increase over the next several years as the 2008-09 and 2011-12 investment losses are fully recognized. The increase in rates compared to the 2011 valuation are primarily due to the change in the discount rate and the investment losses for 2011-12. The significant decrease in contribution rates and amounts in 2027 and 2028 is due to the completion of the amortization of the actuarial losses and assumption changes recognized in the 2009 and 2010 actuarial valuations.

**Chart 1: 7.25% return each year – percentage of pay**



**Chart 2: 7.25% return each year – dollar contribution amounts**

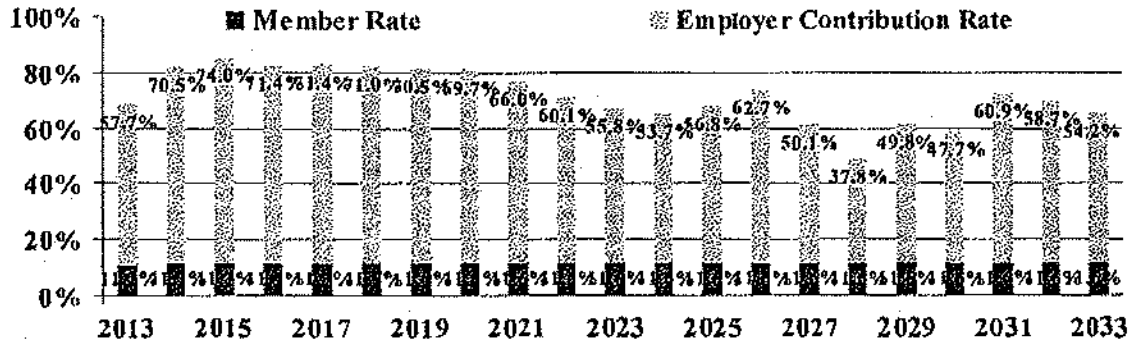


In the graph above, the City dollar contribution amount for FYE 2013 is the actual City contribution made in July, 2012, adjusted to the middle of the fiscal year with interest plus the actual amount credited back to the general reserve from the SRBR.

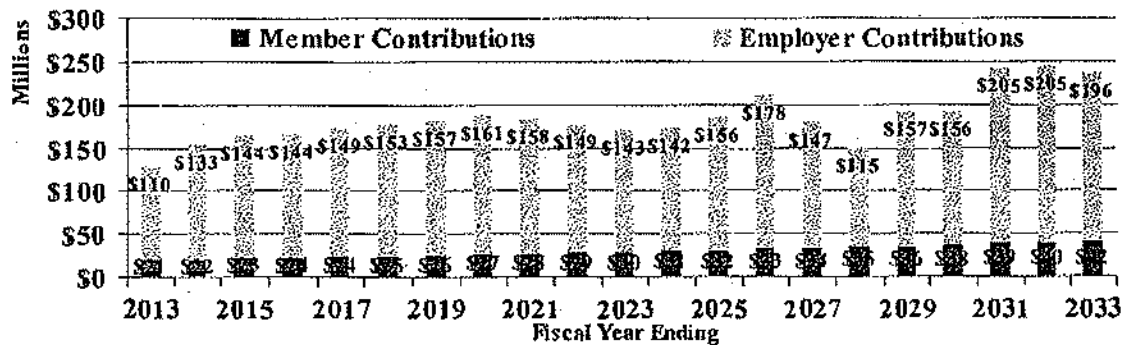
**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
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**SECTION I  
BOARD SUMMARY**

**Chart 3: varying returns averaging 7.25% over time – percentage of pay**



**Chart 4: varying returns averaging 7.25% over time – dollar contribution amounts**



Charts 3 and 4 illustrate the effect of varying investment returns on the projected contribution rates and amounts. The asset smoothing and amortization methods smooth much of the volatility, but significant contribution volatility remains.



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**SECTION II  
ASSETS**

The Plan uses and discloses two different asset measurements which are presented in this section of the report: market value and actuarial value of assets. The market value represents, as of the valuation date, the value of the assets if they were liquidated on that date. The actuarial value of assets is a value that smoothes annual investment return performance over multiple years to reduce the impact of short-term investment volatility on City contribution rates.

On the following pages we present detailed information on the Plan's assets:

- A. Statement of changes in the market value of assets during the year,
- B. Development of the actuarial value of assets, and
- C. Statement of changes in the Supplemental Retiree Benefit Reserve.

**A. Market Value of Assets**

Table II-1 shows sources for the change in the market value of assets.

<b>Table II-1</b>				
<b>Change in Market Value of Assets</b>				
	<b>June 30, 2012</b>			<b>June 30, 2011</b>
	<b>Retirement</b>	<b>COLA</b>	<b>Total</b>	<b>Total</b>
Market Value, Beginning of Year	\$ 1,762,248	\$ 865,479	\$ 2,627,728	\$ 2,264,050
Contributions				
Member	\$ 13,352	\$ 5,993	\$ 19,345	\$ 29,629
City	<u>70,960</u>	<u>50,049</u>	<u>121,008</u>	<u>77,918</u>
Total	\$ 84,312	\$ 56,042	\$ 140,353	\$ 107,547
Net Investment Earnings <sup>1</sup>	\$ (22,427)	\$ (11,449)	\$ (33,877)	\$ 393,250
Benefit Payments	\$ 116,543	\$ 35,177	\$ 151,720	\$ 137,120
Administrative Expenses	\$ 2,453	\$ 1,102	\$ 3,556	N/A
Market Value, End of Year	\$ 1,705,136	\$ 873,793	\$ 2,578,929	\$ 2,627,727

Amounts in thousands

<sup>1</sup> Gross investment earnings less investment expenses in 2012 and less investment and administrative expenses in 2011.

The net investment earnings represent approximately a -1.3% return on the market value of assets compared to an assumed return of 7.5%.

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**SECTION II  
ASSETS**

**B. Actuarial Value of Assets**

To determine on-going contribution amounts, most pension funds use an actuarial value of assets that smoothes year-to-year market value returns in order to reduce the volatility of contribution rates.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.50% for 2011-12, 7.75% for 2010-11, 8.00% for prior years) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss. Table II-2 below shows the gains and losses for the last four years and the portion of each gain or loss that is not recognized in the current actuarial value of assets. These deferred amounts will be recognized in future years.

<b>Table II-2</b>			
<b>Development of Actuarial Value of Assets<sup>1</sup></b>			
	<b>June 30, 2012</b>		
	<b>Retirement</b>	<b>COLA</b>	<b>Total</b>
Market Value of Assets	\$1,705,135,747	\$ 873,792,861	\$ 2,578,928,608
Gains / (Losses)			
Current Year	\$ (158,481,339)	\$ (80,101,035)	\$ (238,582,375)
Prior Year	146,320,079	69,514,959	215,835,038
2 <sup>nd</sup> Prior Year	102,414,358	48,370,992	150,785,350
3 <sup>rd</sup> Prior Year <sup>2</sup>	(419,612,465)	(198,185,797)	(617,798,262)
Deferred Gains / (Losses)			
Current Year (80% Deferred)	\$ (126,785,071)	\$ (64,080,828)	\$ (190,865,900)
Prior Year (60% Deferred)	87,792,047	41,708,975	129,501,023
2 <sup>nd</sup> Prior Year (40% Deferred)	40,965,743	19,348,397	60,314,140
3 <sup>rd</sup> Prior Year (20% Deferred)	(83,922,493)	(39,637,159)	(123,559,652)
Total	\$ (81,949,774)	\$ (42,660,616)	\$ (124,610,390)
Preliminary Actuarial Value of Assets	\$ 1,787,085,521	\$ 916,453,477	\$ 2,703,538,998
Minimum Actuarial Value of Assets (80% of Market Value)	\$1,364,108,598	\$ 699,034,289	\$ 2,063,142,887
Maximum Actuarial Value of Assets (120% of Market Value)	\$ 2,046,162,897	\$ 1,048,551,433	\$ 3,094,714,330
Actuarial Value of Assets	\$1,787,085,521	\$ 916,453,477	\$ 2,703,538,998

<sup>1</sup> Excludes health assets.

<sup>2</sup> Adjusted to reflect immediate recognition of amount outside temporary one year 130% corridor.

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**SECTION II  
ASSETS**

On the basis of the smoothed actuarial value of assets, the return for the year ending June 30, 2012 was approximately 1.2%, slightly more than the return on the market value of assets. This difference is largely due to the recognition of the deferred gains for 2010 and 2011.

**C. Supplemental Retiree Benefit Reserve (SRBR)**

The SRBR is a reserve within the Retirement Fund that is used to supplement benefits provided to retirees and beneficiaries under the Plan. As such, the balance in the SRBR is treated both as an asset and as a liability of the Plan.

Each year, ten percent of excess earnings are transferred to the SRBR. However, since the actual return on the actuarial value of assets (1.2%) was less than the expected return (7.5%), there are no excess earnings this year. The existing balance in the SRBR is credited with approximately 1.2% earnings, and because the City's contribution rate for 2011-12 had increased due to poor investment performance, a charge was made to the SRBR transferring approximately \$1.3 million to the regular retirement fund and the COLA fund. Table II-3 below summarizes the changes to the SRBR this year.

<b>Table II-3</b>		
<b>Changes in Supplemental Retiree Benefit Reserve</b>		
	<b>June 30, 2012</b>	<b>June 30, 2011</b>
SRBR Balance, beginning of year	\$ 33,416,870	\$ 33,343,364
Charge to SRBR for poor investment earnings	(1,285,087)	(1,207,958)
Interest credited	383,943	1,281,464
Excess earnings transferred	0	0
Benefit distributions	0	0
SRBR Balance, end of year	\$ 32,515,726	\$ 33,416,870

The Board is to make annual distributions from the SRBR, but cannot reduce the principal of the SRBR. Normally, these distributions are equal to the regular earnings credited on the SRBR principal. However, these distributions have been suspended, and Measure B which voters approved in June 2012, would eliminate the SRBR if it is implemented. Table II-4 below shows the regular interest credits that have not been distributed, but potentially could be distributed once the suspension expires without reducing the principal in the SRBR.

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SECTION II  
ASSETS

Table II-4	
SRBR Regular Interest Credits Not Yet Distributed	
Fiscal Year	Interest Credit
2008-09	\$ 296,147
2009-10	719,742
2010-11	1,281,464
2011-12	383,943
Total	\$ 2,681,296

When the City's contribution rate increases due to poor investment earnings, there is a charge to the SRBR that partially offsets the City's rate increase. Based upon the June 30, 2011 valuation, the City's contribution rate is offset for 2012-13 by 0.46% of payroll and \$848,379 is transferred from the SRBR to the regular Retirement and COLA reserves. Table II-5 below shows the calculation of the charge to the SRBR and the offset to the City's contribution rate for the 2013-14 fiscal year.

Table II-5	
Calculation of Charge to SRBR for FYE 2014	
1. Increase in UAL due to investment loss in 2011-12	\$ 172,759,413
2. Amortization factor	8.637%
3. Increase in City's dollar contribution as of July 1, 2013 $[1 \div 2]$	\$ 14,921,650
4. SRBR balance as of June 30, 2012	\$ 32,515,726
5. Charge to SRBR on July 1, 2013 [minimum of 10% of 3 and 5% of 4]	\$ 1,492,165
6. Projected 2013-14 payroll	\$ 187,958,523
7. Decrease in City's contribution rate for 2013-14 $[(5 \times 1.0725^{0.5}) \div 6]$	0.82%

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**SECTION III  
LIABILITIES**

This section presents detailed information on liabilities for the Plan, including:

- Present value of future benefits,
- Normal cost
- Actuarial liability, and
- Analysis of changes in the unfunded actuarial liability during the year.

**A. Present Value of Future Benefits**

The present value of future benefits represents the expected amount of money needed today to fully pay off all benefits both earned as of the valuation date and those to be earned in the future by current plan participants under the current plan provisions. Table III-1 below shows the present value of future benefits as of June 30, 2012 and June 30, 2011.

<b>Table III-1</b>				
<b>Present Value of Future Benefits</b>				
	<b>June 30, 2012</b>			<b>June 30, 2011</b>
	<b>Retirement</b>	<b>COLA</b>	<b>Total</b>	<b>Total</b>
<b>Actives</b>				
Retirement	\$ 877,768	\$ 364,847	\$ 1,242,615	\$ 1,162,588
Termination	27,440	10,997	38,437	36,382
Death	11,780	4,814	16,594	15,668
Disability	428,089	178,410	606,500	561,008
<b>Total Actives</b>	<b>\$ 1,345,077</b>	<b>\$ 559,069</b>	<b>\$ 1,904,146</b>	<b>\$ 1,775,645</b>
Service Retirees	799,775	519,564	1,319,339	1,210,090
Disabled Retirees	464,735	400,795	865,529	812,559
Beneficiaries	48,086	48,809	96,895	91,285
Deferred Vested	18,732	9,799	28,532	26,694
SRBR			32,516	33,417
<b>Total</b>	<b>\$2,676,405</b>	<b>\$1,538,036</b>	<b>\$4,246,957</b>	<b>\$ 3,949,689</b>

Amounts in thousands

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**SECTION III  
LIABILITIES**

**B. Normal Cost**

Under the Entry Age (EA) actuarial cost method, the present value of future benefits for each individual is spread over the individual's expected working career under the Plan as a level percentage of the individual's expected pay. The normal cost rate is determined by taking the value, as of entry age into the Plan, of each member's projected future benefits. This value is then divided by the value, also at entry age, of the each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. The normal cost of the Plan is the sum of the normal costs for each individual in the Plan. The normal cost represents the expected amount of money needed to fund the benefits attributed to the next year of service under the Entry Age actuarial funding method. Table III-2 below shows the EA normal cost as of June 30, 2012 and June 30, 2011.

<b>Table III-2</b>				
<b>Entry Age Normal Cost</b>				
	<b>June 30, 2012</b>			<b>June 30, 2011</b>
	<b>Retirement</b>	<b>COLA</b>	<b>Total</b>	<b>Total</b>
<b>Actives</b>				
Retirement	\$ 30,669,311	\$ 12,723,943	\$ 43,393,254	\$ 41,509,870
Termination	1,908,781	323,307	2,232,088	1,999,140
Death	780,883	373,962	1,154,845	1,223,522
Disability	19,117,431	8,316,954	27,434,385	27,209,441
Reciprocity	112,503	316,474	428,977	438,525
<b>Total Normal Cost</b>	<b>\$ 52,588,909</b>	<b>\$ 22,054,640</b>	<b>\$ 74,643,549</b>	<b>\$ 72,380,498</b>
Expected payroll for current actives	\$ 179,509,150	\$ 179,509,150	\$ 179,509,150	\$ 182,035,530
<b>EA Normal Cost Rate</b>	<b>29.30%</b>	<b>12.29%</b>	<b>41.58%</b>	<b>39.76%</b>

Table III-3 below shows the EA normal cost as of June 30, 2012 separated between Police and Fire members.

<b>Table III-3</b>			
<b>Entry Age Normal Cost by Group</b>			
	<b>June 30, 2012</b>		
	<b>Police</b>	<b>Fire</b>	<b>Total</b>
<b>Actives</b>			
Retirement	\$ 29,606,559	\$ 13,786,695	\$ 43,393,254
Termination	1,377,093	854,995	2,232,088
Death	692,887	461,958	1,154,845
Disability	14,155,719	13,278,666	27,434,385
Reciprocity	280,270	148,707	428,977
<b>Total Actives</b>	<b>\$ 46,112,528</b>	<b>\$ 28,531,021</b>	<b>\$ 74,643,549</b>
Expected payroll for current actives	\$ 111,204,844	\$ 68,304,306	\$ 179,509,150
<b>EA Normal Cost Rate</b>	<b>41.47%</b>	<b>41.77%</b>	<b>41.58%</b>

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**SECTION III  
LIABILITIES**

In addition to the EA normal cost, administrative expenses and the expected annual cost of the SRBR are added to get the total normal cost. Table III-4 below develops these additions to the EA normal cost rate.

Table III-4 Administrative Expense and SRBR Normal Cost	
1. Assumed administrative expenses for FYE 2014	\$ 3,000,000
2. SRBR normal cost [0.22% of market value of assets]	\$ 5,875,714
3. Projected payroll for FYE 2014	\$ 187,958,523
4. Administrative expense and SRBR normal cost rate [(1 + 2) ÷ 3]	4.72%
5. EA normal cost rate	41.58%
6. Total normal cost rate [4 + 5]	46.30%

**C. Actuarial Liability**

The actuarial liability represents the expected amount of money needed today to pay for benefits attributed to service prior to the valuation date under the EA method. It is the difference between the present value of future benefits and the present value of future normal costs. Table III-5 below shows the actuarial liability as of June 30, 2012 and June 30, 2011.

Table III-5 Actuarial Liability				
	June 30, 2012			June 30, 2011
	Retirement	COLA	Total	Total
Actives				
Retirement	\$ 537,306	\$ 223,530	\$ 760,836	\$ 719,175
Termination	5,767	4,198	9,965	11,880
Death	3,746	987	4,733	3,851
Disability	222,534	89,429	311,963	287,057
Total Actives	\$ 769,353	\$ 318,144	\$ 1,087,497	\$ 1,021,963
Service Retirees	799,775	519,564	1,319,339	1,210,090
Disabled Retirees	464,735	400,795	865,529	812,559
Beneficiaries	48,086	48,809	96,895	91,285
Deferred Vested	18,732	9,799	28,532	26,694
SRBR			32,516	33,417
Total Actuarial Liability	\$2,100,681	\$1,297,111	\$3,430,308	\$3,196,007

Amounts in thousands

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**SECTION III  
LIABILITIES**

Table III-6 below shows the actuarial liability as of June 30, 2012 separated between Police and Fire members.

Table III-6			
Actuarial Liability by Group			
	June 30, 2012		
	Police	Fire	Total
<b>Actives</b>			
Retirement	\$ 540,912	\$ 219,925	\$ 760,836
Termination	6,093	3,872	9,965
Death	2,763	1,970	4,733
Disability	<u>160,723</u>	<u>151,239</u>	<u>311,963</u>
<b>Total Actives</b>	<b>\$ 710,490</b>	<b>\$ 377,006</b>	<b>\$1,087,497</b>
Service Retirees	929,887	389,452	1,319,339
Disabled Retirees	48,490	48,405	96,895
Beneficiaries	398,370	467,160	865,529
Deferred Vested	23,928	4,603	28,532
SRBR			<u>32,516</u>
<b>Total Actuarial Liability</b>	<b>\$2,111,166</b>	<b>\$1,286,626</b>	<b>\$3,430,308</b>

Amounts in thousands

The difference between the actuarial liability and the actuarial value of assets is the unfunded actuarial liability.



CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
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**SECTION III  
LIABILITIES**

**D. Analysis of Change in Unfunded Actuarial Liability (UAL)**

The UAL of any retirement plan is expected to change at each subsequent valuation for a variety of reasons. In each valuation, we report on those elements of change in the UAL that have particular significance or could potentially affect the long-term financial outlook of a retirement plan. Table III-7 below develops the expected UAL and identifies the primary sources for changes in the UAL since the last valuation.

Table III-7		
Development of Experience Gain / (Loss)		
Item		Amount
1. Unfunded actuarial liability, June 30, 2011		\$ 510,285,510
2. Interest		38,271,413
3. Expected unfunded actuarial liability payment with interest		(62,852,359)
4. Change in assumptions		<u>107,736,491</u>
5. Expected unfunded actuarial liability, June 30, 2012 (1 + 2 - 3 + 4)		\$ 593,441,055
6. Actual unfunded actuarial liability, June 30, 2012		<u>726,768,546</u>
7. Difference (5 - 6)		\$ (133,327,491)
a. Portion due to investment experience	\$ (172,759,413)	
b. Portion due to SRBR	7,546,981	
c. Portion due to salary experience	17,634,216	
d. Portion due to benefit service data	5,401,289	
e. Portion due to termination, mortality and disability experience	16,940,862	
f. Portion due to retirement experience	(10,301,137)	
g. Portion due to other experience	<u>2,209,710</u>	
h. Total	\$ (133,327,491)	

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**SECTION IV  
CONTRIBUTIONS**

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions are needed to achieve and maintain an appropriate funded status of a plan. Typically, the actuarial process will use an actuarial funding method that will result in a pattern of contributions that are both stable and predictable.

Under the method employed for the Plan, there are two components to the total contribution: the normal cost and the unfunded actuarial liability contribution. The normal cost rate was developed in Section III. This section develops the UAL contribution rate and divides the contributions between the members and the City.

The UAL is composed of experience gains and losses, assumption changes and plan provision changes. Each component is amortized from the valuation date in which it was first recognized. Table IV-1 below shows the outstanding balance, remaining period and amortization payments for each component of the UAL as of June 30, 2012.

Table IV-1						
UAL Amortization						
Source	Date	Outstanding Balance		Remaining Period	Amortization Payment	
		Retirement	COLA		Retirement	COLA
1996 Ben Improvement	6/30/1996	\$ (1,475,946)	\$ 2,250,586	5.0	\$ (339,517)	\$ 517,710
UAL	6/30/2003	4,972,437	(7,582,194)	5.0	1,143,827	(1,744,159)
Experience Loss	6/30/2005	(75,125,075)	114,554,073	9.0	(10,278,633)	15,673,318
Police Ben Improvement	6/30/2005	23,282,021	9,014,676	9.0	3,185,452	1,233,390
Rate Increase Delay	12/17/2006	154,807	59,940	9.5	20,307	7,863
Fire Ben Improvement	6/30/2007	22,471,943	8,541,986	11.0	2,601,255	988,783
Experience Gain	6/30/2007	(89,341,250)	(40,102,044)	11.0	(10,341,756)	(4,642,039)
Assumption Change	6/30/2007	19,580,418	10,512,530	11.0	2,266,544	1,216,885
Experience Loss	6/30/2009	152,659,572	80,992,015	13.0	15,455,238	8,199,622
Assumption Change	6/30/2009	89,754,662	49,704,543	13.0	9,086,752	5,032,082
Experience Loss	6/30/2010	100,810,203	54,435,035	14.0	9,633,485	5,201,845
Assumption Change	6/30/2010	64,749,326	36,899,621	14.0	6,187,485	3,526,150
Experience Gain	6/30/2011	(150,917,142)	(95,476,366)	15.0	(13,681,098)	(8,655,223)
Assumption Change	6/30/2011	22,970,927	32,700,388	19.0	1,752,727	2,495,103
Experience Loss	6/30/2012	86,669,849	46,657,644	16.0	7,485,885	4,029,934
Assumption Change	6/30/2012	58,179,549	49,556,942	20.0	4,284,215	3,649,265
7/1/2012 UAL Payment		16,714,426	27,938,444			
<b>Total</b>		<b>\$ 346,110,727</b>	<b>\$ 380,657,819</b>		<b>\$ 28,462,168</b>	<b>\$ 36,730,529</b>

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
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**SECTION IV  
CONTRIBUTIONS**

Table IV-2 below shows the division of the UAL payments between Police and Fire and between the members and the City.

Table IV-2						
UAL Amortization Payments						
Source	Member	Police City	Total	Member	Fire City	Total
1996 Ben Improvement	\$ 110,403	\$ 0	\$ 110,403	\$ 67,790	\$ 0	\$ 67,790
UAL	0	(371,948)	(371,948)	0	(228,384)	(228,384)
Experience Loss	0	3,342,389	3,342,389	0	2,052,296	2,052,296
Police Ben Improvement	0	4,418,842	4,418,842	0	0	0
Rate Increase Delay	28,170	0	28,170	0	0	0
Fire Ben Improvement	0	0	0	0	3,590,038	3,590,038
Experience Gain	0	(9,283,522)	(9,283,522)	0	(5,700,273)	(5,700,273)
Assumption Change	0	2,158,231	2,158,231	0	1,325,198	1,325,198
Experience Loss	0	14,655,860	14,655,860	0	8,999,000	8,999,000
Assumption Change	0	8,747,617	8,747,617	0	5,371,217	5,371,217
Experience Loss	0	9,191,537	9,191,537	0	5,643,793	5,643,793
Assumption Change	0	6,018,285	6,018,285	0	3,695,350	3,695,350
Experience Gain	0	(13,838,932)	(13,838,932)	0	(8,497,389)	(8,497,389)
Assumption Change	0	2,631,831	2,631,831	0	1,615,999	1,615,999
Experience Loss	0	7,134,865	7,134,865	0	4,380,954	4,380,954
Assumption Change	0	4,915,352	4,915,352	0	3,018,128	3,018,128
<b>Total</b>	<b>\$ 138,573</b>	<b>\$ 39,720,408</b>	<b>\$ 39,858,981</b>	<b>\$ 67,790</b>	<b>\$ 25,265,926</b>	<b>\$ 25,333,716</b>

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
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**SECTION IV  
CONTRIBUTIONS**

In addition to the UAL payments shown above, members pay 3/11ths of the EA normal cost (excluding reciprocity normal cost) plus their historical share of administrative expenses. Table IV-3 below shows the contribution rates for the 2012-13 and 2013-14 fiscal years for members and the City split between Police and Fire groups. These rates are prior to the reduction of 0.46% for 2012-13 and 0.82% for 2013-14 due to the charge to the SRBR.

Table IV-3						
Contribution Rates						
Source	Fiscal Year 2013-14			Fiscal Year 2012-13		
	Retirement	COLA	Total	Retirement	COLA	Total
<b><u>Police - Member</u></b>						
Normal Cost	8.09%	3.43%	11.53%	7.76%	3.25%	11.01%
UAL	<u>-0.17%</u>	<u>0.29%</u>	<u>0.12%</u>	<u>-0.16%</u>	<u>0.28%</u>	<u>0.12%</u>
Total	7.92%	3.73%	11.65%	7.60%	3.53%	11.13%
<b><u>Police - City</u></b>						
Normal Cost	24.33%	10.33%	34.66%	23.50%	9.84%	33.33%
UAL	<u>15.50%</u>	<u>19.82%</u>	<u>35.32%</u>	<u>8.66%</u>	<u>15.03%</u>	<u>23.69%</u>
Total	39.84%	30.15%	69.99%	32.16%	24.87%	57.03%
<b><u>Fire - Member</u></b>						
Normal Cost	8.23%	3.39%	11.62%	7.91%	3.21%	11.12%
UAL	<u>-0.19%</u>	<u>0.29%</u>	<u>0.10%</u>	<u>-0.18%</u>	<u>0.27%</u>	<u>0.09%</u>
Total	8.05%	3.67%	11.72%	7.73%	3.48%	11.21%
<b><u>Fire - City</u></b>						
Normal Cost	24.71%	10.16%	34.87%	23.89%	9.70%	33.59%
UAL	<u>16.44%</u>	<u>20.16%</u>	<u>36.59%</u>	<u>9.84%</u>	<u>15.46%</u>	<u>25.30%</u>
Total	41.15%	30.32%	71.47%	33.73%	25.16%	58.89%

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

**SECTION IV  
CONTRIBUTIONS**

Table IV-4 below shows the estimated dollar amounts of the City's contributions assuming contributions are made at the beginning of the fiscal year. These amounts are prior to the reduction of \$848,379 for FYE 2013 and \$1,492,165 for FYE 2014 due to the charge to the SRBR. To the extent the City's contributions are made after the beginning of the fiscal year, the amounts should be increased at the assumed valuation interest rate (7.50% for 2012-13 and 7.25% for 2013-14).

Table IV-4						
Estimated City Contribution Amounts						
Beginning of Year						
Source	Fiscal Year 2013-14			Fiscal Year 2012-13		
	Retirement	COLA	Total	Retirement	COLA	Total
<b><u>Police</u></b>						
Normal Cost	\$ 27,364,200	\$ 11,613,202	\$ 38,977,402	\$ 27,587,645	\$ 11,550,768	\$ 39,138,412
UAL	<u>17,432,279</u>	<u>22,288,130</u>	<u>39,720,408</u>	<u>10,168,734</u>	<u>17,650,436</u>	<u>27,819,169</u>
Total	\$ 44,796,478	\$ 33,901,332	\$ 78,697,810	\$ 37,756,378	\$ 29,201,203	\$ 66,957,582
<b><u>Fire</u></b>						
Normal Cost	\$ 17,061,163	\$ 7,018,036	\$ 24,079,200	\$ 15,898,903	\$ 6,454,762	\$ 22,353,665
UAL	<u>11,349,099</u>	<u>13,916,826</u>	<u>25,265,926</u>	<u>6,545,692</u>	<u>10,288,008</u>	<u>16,833,701</u>
Total	\$ 28,410,263	\$ 20,934,863	\$ 49,345,125	\$ 22,444,595	\$ 16,742,770	\$ 39,187,366
<b><u>Total</u></b>						
Normal Cost	\$ 44,425,363	\$ 18,631,238	\$ 63,056,601	\$ 43,486,548	\$ 18,005,530	\$ 61,492,077
UAL	<u>28,781,378</u>	<u>36,204,956</u>	<u>64,986,334</u>	<u>16,714,426</u>	<u>27,938,444</u>	<u>44,652,870</u>
Total	\$ 73,206,741	\$ 54,836,194	\$ 128,042,935	\$ 60,200,974	\$ 45,943,974	\$ 106,144,947

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

**SECTION V**  
**ACCOUNTING STATEMENT INFORMATION**

Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for accounting and financial reporting of pension information by public employee retirement systems.

The basic GASB No. 25 disclosure compares the actuarial liability to the actuarial value of assets to determine a funded ratio. The relevant amounts as of June 30, 2011 and June 30, 2012 are presented in Table V-1.

Table V-1			
GASB No. 25 Liability			
	June 30, 2012	June 30, 2011	% Change
1. Actuarial Liability			
a. Members currently receiving payments	\$ 2,281,763,523	\$ 2,113,933,225	7.9%
b. Vested terminated and inactive members	28,531,627	26,693,705	6.9%
c. Active members	1,087,496,668	1,021,962,982	6.4%
d. SRBR	<u>32,515,726</u>	<u>33,416,870</u>	-2.7%
e. Total actuarial liability	\$ 3,430,307,544	\$ 3,196,006,782	7.3%
2. Actuarial value of assets	\$ 2,703,538,998	\$ 2,685,721,272	0.7%
3. Unfunded actuarial liability	\$ 726,768,546	\$ 510,285,510	42.4%
4. Ratio of actuarial value of assets to actuarial liability (2 ÷ 1.d)	78.81%	84.03%	-6.2%

Tables V-2 through V-5 are exhibits for use in the Plan's Comprehensive Annual Financial Report (CAFR). The Government Finance Officers Association (GFOA) recommends showing at least 6 years of experience in each of these exhibits. Table V-2 shows the Notes to Required Supplementary Information. Table V-3 presents an analysis of financial experience for the valuation year; Table V-4 presents the Solvency Test which shows the portion of actuarial liability covered by assets; and Table V-5 presents the Schedule of Funding Progress.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

SECTION V  
ACCOUNTING STATEMENT INFORMATION

**Table V-2**  
**City of San José Police and Fire Department Retirement Plan**  
**Notes to Required Supplementary Information**

The information presented in the required supplementary schedules to the Financial Section of the CAFR was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2012
Actuarial funding method	Entry Age Normal
Amortization method	Level percent of pay, closed, layered
Equivalent single amortization period	14.0 Years
Asset valuation method	5 year smoothing of return
Actuarial assumptions:	
Investment rate of return	7.25%
Wage inflation <sup>1</sup>	0.00% for one year and 3.50% thereafter
Cost-of-living adjustments <sup>2</sup>	3.0% per year

The actuarial assumptions used have been recommended by the actuary and adopted by the City of San José Police and Fire Department Plan Board based on the most recent review of plan experience completed in 2011.

The rate of employer contributions is composed of the normal cost and amortization of the unfunded actuarial liability. The normal cost is a level percent of payroll cost which, along with the member contributions, is expected to pay for projected benefits at retirement for each individual plan member. The actuarial liability is that portion of the present value of projected benefits that is not expected to be paid by future employer normal costs or member contributions. The difference between this liability and the assets accumulated as of the same date is the unfunded actuarial liability.

<sup>1</sup> Excludes merit increases.

<sup>2</sup> Cost-of-living adjustments are fixed at 3.0% by the plan provision and do not fluctuate with actual inflation.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

**SECTION V**  
**ACCOUNTING STATEMENT INFORMATION**

Table V-3		
Analysis of Financial Experience		
Gain or (Loss) in Actuarial Liability Resulting from Differences Between Assumed Experience and Actual Experience		
Type of Activity	Gain or (Loss) for Year Ending June 30, 2012	Gain or (Loss) for Year Ending June 30, 2011
Investment income	\$ (172,759)	\$ (96,473)
Combined liability experience	<u>39,432</u>	<u>278,051</u>
Gain or (loss) during year from financial experience	\$ (133,327)	\$ 181,578
Non-recurring gain or (loss) items	<u>(107,736)</u>	<u>12,360</u>
Composite gain or (loss) during year	\$ (241,064)	\$ 193,938

Amounts in thousands

Table V-4								
Solvency Test <sup>1</sup>								
Valuation Date June 30,	Active Member Contributions (A)	Actuarial Liability For		Reported Assets	Portion of Actuarial Liability Covered by Reported Assets			
		Retirees, Beneficiaries and Other Inactives (B)	Remaining Active Members' Liability (C)		(A)	(B)	(C)	
2012	\$ 276,047	\$ 2,342,811	\$ 811,450	\$ 2,703,539	100%	100%	10%	
2011	260,172	2,174,044	761,791	2,685,721	100%	100%	33%	
2010	246,356	1,907,931	1,076,169	2,576,705	100%	100%	39%	
2009	243,302	1,630,914	1,089,266	2,569,569	100%	100%	64%	
2007	227,191	1,240,126	905,069	2,365,790	100%	100%	99%	
2005	194,008	1,062,247	771,177	1,983,090	100%	100%	94%	

Amounts in thousands

<sup>1</sup> Amounts prior to June 30, 2011 calculated by prior actuary.



**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION**

**SECTION V  
ACCOUNTING STATEMENT INFORMATION**

Table V-5 <sup>1</sup>						
Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
6/30/2005	\$ 1,983,090	\$ 2,027,432	\$ 44,342	97.8%	\$ 210,018	21.1%
6/30/2007	2,365,790	2,372,386	6,596	99.7%	227,734	2.9%
6/30/2009	2,569,569	2,963,482	393,913	86.7%	255,223	154.3%
6/30/2010	2,576,705	3,230,456	653,751	79.8%	251,058	260.4%
6/30/2011	2,685,721	3,196,007	510,286	84.0%	190,726	267.5%
6/30/2012	2,703,539	3,430,308	726,769	78.8%	187,959	386.7%

Amounts in thousands

<sup>1</sup> Amounts prior to June 30, 2011 calculated by prior actuary.

**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION**

**APPENDIX A  
MEMBERSHIP INFORMATION**

<b>Table A-1</b> <b>City of San Jose Police and Fire Department Retirement Plan</b> <b>Active Member Data</b>			
	June 30, 2012	June 30, 2011	% Change
<b>Total</b>			
Count	1,718	1,735	-1.0%
Average Current Age	41.5	41.3	0.5%
Average Vesting Service	13.6	13.5	0.7%
Annual Expected Pensionable Earnings	\$ 187,958,524	\$ 190,726,258	-1.5%
Average Expected Pensionable Earnings	\$ 109,405	\$ 109,929	-0.5%

<b>Table A-2</b> <b>City of San Jose Police and Fire Department Retirement Plan</b> <b>Non-Active Member Data</b>						
	Count			Average Age		
	June 30, 2012	June 30, 2011	% Change	June 30, 2012	June 30, 2011	% Change
<b>Total</b>						
Retired & Disabled	1,690	1,636	3.3%	64.6	64.3	0.5%
Beneficiaries	252	249	1.2%	64.5	63.7	1.3%
Payee Total	1,942	1,885	3.0%	64.6	64.2	0.6%
Inactives	166	228	-27.2%	40.3	37.3	8.0%

<b>Table A-3</b> <b>City of San Jose Police and Fire Department Retirement Plan</b> <b>Non-Active Member Data</b>						
	Total Annual Benefit*			Average Annual Benefit*		
	June 30, 2012	June 30, 2011	% Change	June 30, 2012	June 30, 2011	% Change
<b>Total</b>						
Retired & Disabled	\$ 145,746,196	\$ 136,002,610	7.2%	\$ 86,240	\$ 83,131	3.7%
Beneficiaries	8,635,892	8,136,035	6.1%	34,266	32,675	4.9%
Payee Total	\$ 154,381,289	\$ 144,138,645	7.1%	\$ 79,496	\$ 76,466	4.0%
Inactives**	\$ 2,062,960	\$ 1,985,944	3.9%	\$ 12,427	\$ 8,710	42.7%

\* Benefits provided in June 30 valuation data

\*\* For Inactives, benefit is calculated based on the data assumptions and methods outlined in Appendix A.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION**

**APPENDIX A  
MEMBERSHIP INFORMATION**

**Table A-4**

**City of San Jose Police and Fire Department Retirement Plan  
Distribution of Active Members as of June 30, 2012**

Age	Years of Benefit Service								Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 and Up	
Under 25	1	1							2
25 to 29	13	32	32						77
30 to 34	29	65	112	19					219
35 to 39	9	40	106	150	18				323
40 to 44	3	17	48	192	200	27			487
45 to 49	1	1	15	97	144	140	21		419
50 to 54			4	16	47	91	16		159
55 to 59				2	13	13	1		29
60 to 64				1	2				5
65 to 69									
70 and up									
<b>Total Count</b>	<b>51</b>	<b>156</b>	<b>322</b>	<b>471</b>	<b>424</b>	<b>254</b>	<b>40</b>	<b>-</b>	<b>1,718</b>

**Table A-5**

**City of San Jose Police and Fire Department Retirement Plan  
Distribution of Active Members as of June 30, 2012**

Age	Average Expected Salary Years of Benefit Service								Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 and Up	
Under 25	\$ 78,451	\$ 80,191							\$ 79,321
25 to 29	82,429	89,743	99,813						92,693
30 to 34	83,004	92,673	104,708	106,540					98,985
35 to 39	82,181	93,041	105,750	108,029	115,986				105,148
40 to 44	91,008	91,745	105,695	108,925	115,323	121,672			111,232
45 to 49	80,481	105,954	106,510	109,593	114,145	120,954	129,161		115,746
50 to 54			105,660	113,057	116,110	114,989	128,949		116,302
55 to 59				109,217	112,703	127,146	143,064		119,984
60 to 64				98,362	114,309		133,802		122,959
65 to 69									
70 and up									
<b>Avg. Salary</b>	<b>\$ 83,468</b>	<b>\$ 92,071</b>	<b>\$ 104,807</b>	<b>\$ 108,842</b>	<b>\$ 114,954</b>	<b>\$ 119,603</b>	<b>\$ 130,156</b>	<b>\$ -</b>	<b>\$ 109,405</b>

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION**

**APPENDIX A  
MEMBERSHIP INFORMATION**

Table A-6  
City of San Jose Police and Fire Department Retirement Plan  
Retirees and Disabled by Attained Age and Benefit Effective Date  
As of June 30, 2012

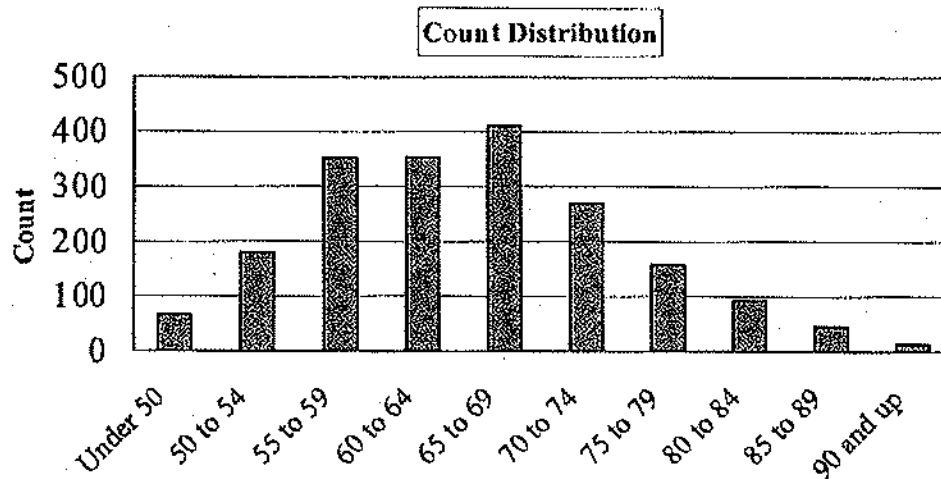
Benefit Effective	Age										Total
	Under 50	50 to 54	55 to 59	60 to 64	65 to 69	70 to 74	75 to 79	80 to 84	85 to 89	90 and up	
Pre-1992	1	1	3	9	30	36	76	61	26	5	248
PYE 1992	-	-	2	-	5	9	6	2	-	-	25
PYE 1993	-	1	2	-	6	39	25	1	-	-	74
PYE 1994	1	1	3	3	11	21	8	2	-	-	42
PYE 1995	-	1	1	2	29	25	5	1	-	-	64
PYE 1996	-	2	-	1	19	21	2	-	-	-	43
PYE 1997	1	-	1	4	29	25	3	1	-	-	64
PYE 1998	-	1	2	3	42	15	1	-	-	-	73
PYE 1999	-	-	2	9	31	14	2	-	-	-	58
PYE 2000	-	-	-	13	24	10	1	-	-	-	48
PYE 2001	1	1	3	20	28	4	1	-	-	-	58
PYE 2002	-	2	1	19	27	1	-	-	-	-	51
PYE 2003	2	2	8	32	31	3	-	-	-	-	78
PYE 2004	-	-	5	31	10	2	-	-	-	-	48
PYE 2005	1	3	17	38	16	2	1	-	-	-	78
PYE 2006	-	-	12	11	13	1	-	-	-	-	37
PYE 2007	3	2	28	26	7	-	-	-	-	-	66
PYE 2008	4	-	33	21	24	-	-	-	-	-	82
PYE 2009	4	19	73	46	11	2	-	-	-	-	155
PYE 2010	2	40	73	70	22	-	-	-	-	-	137
PYE 2011	5	57	42	6	-	1	-	-	-	-	111
PYE 2012	-	37	19	2	-	-	-	-	-	-	64
<b>Total</b>	<b>33</b>	<b>171</b>	<b>325</b>	<b>321</b>	<b>374</b>	<b>235</b>	<b>131</b>	<b>68</b>	<b>27</b>	<b>5</b>	<b>1,690</b>
Average Age at Retirement/Disability 52.7											
Average Current Age 64.6											
Average Annual Pension \$ 80,240											

**CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION**

**APPENDIX A  
MEMBERSHIP INFORMATION**

<b>Table A-7</b> <b>City of San Jose Police and</b> <b>Fire Department Retirement Plan</b> <b>Distribution of Retirees, Disabled Members,</b> <b>and Beneficiaries as of June 30, 2012</b>	
Age	Count
Under 50	66
50 to 54	180
55 to 59	353
60 to 64	354
65 to 69	411
70 to 74	269
75 to 79	158
80 to 84	93
85 to 89	45
90 and up	13
Total	1,942

**Chart A-1**



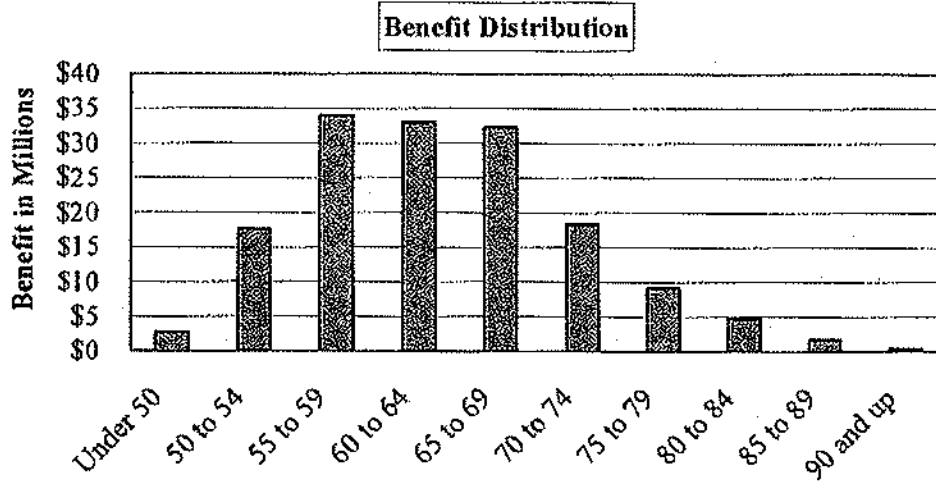
**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION**

**APPENDIX A  
MEMBERSHIP INFORMATION**

**Table A-8  
City of San Jose Police and  
Fire Department Retirement Plan  
Distribution of Retirees, Disabled Members,  
and Beneficiaries as of June 30, 2012**

<b>Age</b>	<b>Annual Benefit</b>
Under 50	\$ 2,754,660
50 to 54	17,703,367
55 to 59	34,005,414
60 to 64	33,042,733
65 to 69	32,338,033
70 to 74	18,460,265
75 to 79	9,170,635
80 to 84	4,743,289
85 to 89	1,720,301
90 and up	442,592
<b>Total</b>	<b>\$ 154,381,289</b>

**Chart A-2**



CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

**APPENDIX B**  
**ACTUARIAL ASSUMPTIONS AND METHODS**

**A. Actuarial Assumptions**

**1. Investment Return Assumption**

Assets are assumed to earn 7.25% net of investment expenses.

**2. Salary Increase Rate**

Wage inflation component is assumed to be 0.00% for FYE 2014, and 3.50% thereafter.

In addition, the following merit component is added based on an individual member's years of service:

Table B-1 Salary Merit Increases	
Years of Service	Merit/ Longevity
0	8.00%
1	7.25
2	6.50
3	5.75
4	5.00
5	4.50
6	4.00
7	3.50
8	3.00
9	2.50
10+	2.25

**3. Family Composition**

Percentage married is shown in the following Table B-2. Women are assumed to be three years younger than men.

Table B-2 Percentage Married	
Gender	Percentage
Males	85%
Females	85%

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

**APPENDIX B  
ACTUARIAL ASSUMPTIONS AND METHODS**

**4. Rates of Termination**

Sample rates of termination are shown in the following Table B-3.

Table B-3 Rates of Termination	
Service	Termination
0	6.00%
1	2.50
2	1.50
3-4	1.00
5-10	0.75
11+	0.40

\* Termination rates do not apply once a member is eligible for retirement

75% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.5% pay increases per year.

**5. Rates of Disability**

Sample disability rates of active participants are provided in Table B-4.

Table B-4 Rates of Disability at Selected Ages		
Age	Police	Fire
25	0.09%	0.09%
30	0.13	0.13
35	0.20	0.20
40	0.31	0.31
45	0.51	0.51
50	2.14	2.25
55	9.08	8.50
60	10.00	17.25
65	10.00	20.00

100% of disabilities are assumed to be duty related.



CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

APPENDIX B  
ACTUARIAL ASSUMPTIONS AND METHODS

**6. Rates of Mortality for Healthy Lives**

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant mortality tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back three years for males and no setback for females.

Table B-5 Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	Male	Female
25	0.0308%	0.0180%
30	0.0363	0.0239
35	0.0535	0.0425
40	0.0860	0.0607
45	0.1099	0.0957
50	0.1491	0.1412
55	0.2179	0.2507
60	0.3954	0.4808
65	0.7529	0.9231
70	1.4103	1.5923
75	2.3454	2.5937
80	4.1153	4.2767
85	7.4274	7.2923
90	12.8097	12.7784
95	21.0194	19.0654

It is assumed that 50% of active deaths are service related.

**CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION**

**APPENDIX B  
ACTUARIAL ASSUMPTIONS AND METHODS**

**7. Rates of Mortality for Retired Disabled Lives**

Mortality rates for disabled retirees are based on the male RP-2000 combined employee and annuitant mortality table. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years.

<b>Table B-6 Rates of Mortality for Disabled Lives at Selected Ages</b>	
<b>Age</b>	<b>Mortality</b>
50	0.1583%
55	0.2383
60	0.4488
65	0.8695
70	1.5521
75	2.6125
80	4.6195
85	8.2794
90	14.3228
95	22.6746

**8. Rates of Retirement**

Rates of retirement are based on age and service according to the following Table B-7.

<b>Table B-7 Rates of Retirement by Age</b>				
<b>Age</b>	<b>Police</b>		<b>Fire</b>	
	<b>&lt;30 Years</b>	<b>30+ Years</b>	<b>&lt;30 Years</b>	<b>30+ Years</b>
50 - 54	30.00%	50.00%	17.00%	17.00%
55 - 59	30.00	50.00	17.00	25.00
60 - 64	50.00	100.00	17.00	25.00
65 - 69	50.00	100.00	35.00	35.00
70 & over	100.00	100.00	100.00	100.00

These retirement rates apply only to those eligible for unreduced benefits.

**9. Administrative Expenses**

\$3.0 million added to normal cost. The administrative expenses are assumed to increase with wage inflation. Historically, the administrative expenses were assumed to reduce

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

APPENDIX B  
ACTUARIAL ASSUMPTIONS AND METHODS

the investment return assumption by 10 basis points which resulted in a higher Normal Cost. To maintain the same historic division of member and City contributions for administrative expenses for this valuation, members were allocated a portion of the administrative expenses equal to  $\frac{3}{11}$ ths of the difference in Normal Cost that a 10 basis point reduction in the investment return assumption would cause.

**10. SRBR**

0.22% of the market value of assets is added to the normal cost as the assumed average annual transfer of excess earnings to the SRBR.

**11. Changes Since Last Valuation**

The investment return assumption was reduced from 7.50% to 7.25% as adopted by the Board in December 2012.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

**APPENDIX B**  
**ACTUARIAL ASSUMPTIONS AND METHODS**

**B. Actuarial Methods**

**1. Actuarial Funding Method**

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

**2. Asset Valuation Method**

For the purposes of determining the employer's contribution, we use an actuarial value of assets. The asset smoothing method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.50% for 2011-12, 7.75% for 2010-11, 8.00% for prior years) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

Finally, the actuarial value of assets is restricted to a corridor between 80 percent and 120 percent of the market value of assets.

Prior to the June 30, 2011 valuation, the actuarial value of assets was reduced by the SRBR and no liability was reported for the SRBR. After the June 30, 2011 valuation, the SRBR remains a part of the actuarial value of assets and is also added to the actuarial liability.

**3. Amortization Method**

Actuarial gains and losses and plan changes are amortized as a level percentage of pay assuming 3.5% annual growth in payroll over a 16-year period beginning with the valuation date in which they first arise. Changes in methods and assumptions are amortized as a level percentage of pay assuming 3.5% annual growth in payroll over a 20-year period (16 years for changes prior to June 30, 2011) beginning with the valuation date on which they are effective.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

APPENDIX C  
SUMMARY OF PLAN PROVISIONS

**1. Membership Requirement**

Participation in the plan is immediate upon the first day of employment with the City of San José as a police officer or fire fighter except for the following:

- Independent contractors,
- Person in City service principally for training or educational purposes,
- Auxiliary or voluntary police officers or fire fighters,
- Part-time or non-salaried employees, and
- Employees receiving credit in any other retirement or pension system.

**2. Final Compensation**

The highest twelve consecutive months of compensation in covered employment. However, in determining Final Compensation, no compensation in the last 12 months of employment that exceeds 108% of compensation during the 12 months immediately preceding the last 12 month shall be considered. Compensation excludes overtime pay and expense allowances.

**3. Credited Service**

Years of service in covered employment plus service purchased for military leave of absence, Federated service, and unpaid leaves of absence.

**4. Contributions**

**a. Member:**

The amount needed to fund 3/11 of normal cost calculated under the Entry Age actuarial cost method plus the amortization payment on the February 4, 1996 benefit improvement. For Police members, there is an additional amortization payment for member contributions not made for the last 6 months of 2006.

**b. Employer:**

The Employer contributes the remaining amounts necessary to fund the Plan in accordance with the Board's funding policy.

**5. Service Retirement**

**Eligibility**

Age 55 with 20 years of service, age 50 with 25 years of service, age 70 with no service requirement, or any age with 30 years of service. Reduced benefits are also available at age 50 with 20 years of service.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

**APPENDIX C  
SUMMARY OF PLAN PROVISIONS**

**Benefit**

- Police:** 2.5% of Final Compensation for each year of credited service up to 20 years plus 4.0% of Final Compensation for each year of credited service in excess of 20, subject to a maximum of 90% of Final Compensation.
- Fire:** For members with less than 20 years of service, 2.5% of Final Compensation for each year of credited service. For members with 20 or more years of service, 3.0% of Final Compensation for each year of service, subject to a maximum of 90% of Final compensation.

**6. Service Connected Disability Retirement**

**Eligibility**

No age or service requirement.

**Benefit**

- Police:** 50% of Final Compensation plus 4.0% of Final Compensation for each year of credited service in excess of 20, subject to a maximum of 90% of Final Compensation.
- Fire:** For members with less than 20 years of service, 50% of Final Compensation. For members with 20 or more years of service, 3.0% of Final Compensation for each year of service, subject to a maximum of 90% of Final Compensation.

**7. Non-Service Connected Disability Retirement**

**Eligibility**

Two years of service.

**Benefit**

For members with less than 20 years of service, 32% of Final Compensation plus 1% of Final Compensation for each year of service in excess of two. For members with 20 or more years of service, the benefit amount equals the amount that would be calculated under the service retirement formula.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

APPENDIX C  
SUMMARY OF PLAN PROVISIONS

**8. Non-Service-Connected Death**

*Less than 2 Years of Service:*

Lump sum benefit equal to the greater of accumulated employee contributions with interest or \$1,000.

*Disabled retirees or members ineligible for service retirement:*

Spouse receives 24% of Final Compensation plus 0.75% of Final Compensation for each year of service in excess of two, subject to a maximum of 37.5% of Final Compensation. If a member has eligible dependent children, an additional benefit is payable as follows:

1 Child:	25% of Final Compensation
2 Children:	37.5% of Final Compensation
3+ Children:	50% of Final Compensation

The total benefit payable to a family is limited to 75% of Final Compensation.

If a member does not have a spouse or eligible dependent children, a lump sum benefit equal to the greater of accumulated employee contributions with interest or \$1,000.

*Service retirees or members eligible for service retirement:*

Spouse receives the greater of 37.5% of Final Compensation or 50% of the member's service retirement benefit, subject to a maximum of 42.5% of Final Compensation for Police and 45% of Final Compensation for Fire. Eligible dependent children will receive the same benefit as defined under the non-service connected death for disabled retirees or members ineligible for service retirement. The total benefit payable to a family is limited to 75% of Final Compensation.

**9. Service-Connected Death**

Spouse receives the greater of 37.5% of Final Compensation or 50% of the member's service retirement benefit, subject to a maximum of 42.5% of Final Compensation for Police and 45% of Final Compensation for Fire. If a member has eligible dependent children, an additional benefit of 25% of Final Compensation is payable for each eligible dependent child. The total benefit payable to a family is limited to 75% of Final Compensation.

**10. Termination Benefits**

*Less than 10 Years of Service:*

Lump sum benefit equal to the accumulated employee contributions with interest at 2% per annum.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

**APPENDIX C**  
**SUMMARY OF PLAN PROVISIONS**

*10 or more years of credited service:*

The amount of the service retirement benefit, payable at the later of age 55 or 20 years from date of membership.

**11. Post-retirement Cost-of-Living Benefit**

Benefits are increased every February 1 by 3.0%.

**12. Supplemental Retiree Benefit Reserve**

Annual transfer:	10% of earnings in excess of the actuarially assumed rate on the actuarial value of assets are transferred to the SRBR and added to its principal.
Interest credit:	Interest on the SRBR balance equal to the actual rate of earnings on the actuarial value of assets, but not less than zero.
Benefit:	Board shall make annual distributions from the SRBR to provide supplemental benefits to retirees and beneficiaries except that no distributions can be made during calendar years 2010, 2011 and 2012, prior to June 30, 2012. In addition, distributions may not reduce the principal of the SRBR.
Charge to Principal:	If the City's contribution rate increases due to poor investment earnings, 10% of the increased contribution for a one-year period is deducted from the SRBR principal, subject to a maximum deduction of 5% of the SRBR principal.

**Note:** The summary of major plan provisions is designed to outline principal plan benefits. If the Department of Retirement Services should find the plan summary not in accordance with the actual provisions, the actuary should immediately be alerted so the proper provisions are valued.



CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

**APPENDIX D  
GLOSSARY OF TERMS**

**1. Actuarial Liability**

The Actuarial Liability is the difference between the present value of all future Plan benefits and the present value of total future normal costs. This is also referred to by some actuaries as the "accrued liability" or "actuarial accrued liability".

**2. Actuarial Assumptions**

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement rate or rates of investment income and salary increases. Demographic actuarial assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

**3. Accrued Service**

Service credited under the Plan which was rendered before the date of the actuarial valuation.

**4. Actuarial Equivalent**

A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.

**5. Actuarial Funding Method**

A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of a retirement Plan benefit between future normal cost and actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

**6. Actuarial Gain (Loss)**

The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

**7. Actuarial Present Value**

The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

CITY OF SAN JOSÉ POLICE AND FIRE DEPARTMENT RETIREMENT PLAN  
JUNE 30, 2012 ACTUARIAL VALUATION

APPENDIX D  
GLOSSARY OF TERMS

**8. Amortization**

Paying off an interest-discounted amount with periodic payments of interest and principal—as opposed to paying off with a lump sum payment.

**9. Annual Required Contribution (ARC) under GASB 25**

The Governmental Accounting Standards Board (GASB) Statement No. 25 defines the Plan Sponsor's "Annual Required Contribution" (ARC) that must be disclosed annually. The SJPF Employer computed contribution rate for FYE 2014 meets the parameters of GASB 25.

**10. Normal Cost**

The actuarial present value of retirement Plan benefits allocated to the current year by the actuarial funding method.

**11. Set back/Set forward**

Set back is a period of years that a standard published table (i.e. mortality) is referenced backwards in age. For instance, if the set back period is 2 years and the participant's age is currently 40, then the table value for age 38 is used from the standard published table. It is the opposite for set forward. A Plan would use set backs or set forwards to compensate for mortality experience in their work force.

**12. Unfunded Actuarial Liability (UAL)**

The unfunded actuarial liability represents the difference between actuarial liability and the actuarial value of assets. This value is sometimes referred to as "unfunded actuarial accrued liability."

Most retirement Plans have unfunded actuarial liabilities. They typically arise each time new benefits are added and each time experience losses are realized.

The existence of unfunded actuarial liability is not in itself an indicator of poor funding. Also, unfunded actuarial liabilities do not represent a debt that is payable today. What is important is the ability of the plan sponsor to amortize the unfunded actuarial liability and the trend in its amount (after due allowance for devaluation of the dollar).



Classic Values, Innovative Advice

December 21, 2012

**VIA ELECTRONIC MAIL**

Board of Administration  
City of San José Police & Fire Department Retirement Plan  
1737 North First Street, Suite 580  
San José, California 95112

**Re: FYE 2014 Contribution Rates Assuming the SRBR is Eliminated**

Dear Members of the Board:

The purpose of this letter is to provide, as requested by the Board at its December meeting, alternative June 30, 2012 actuarial valuation results assuming the Supplemental Retiree Benefit Reserve (SRBR) is eliminated. Measure B, which voters approved on June 5, 2012, provides for the elimination of the SRBR, and we understand the City has taken steps to adopt an ordinance implementing this provision of Measure B. The June 30, 2012 actuarial valuation assumes the SRBR continues, but since that valuation is used to set contribution rates for the Fiscal Year Ending June 30, 2014, the Board requested that we also calculate the contribution rates assuming the SRBR is eliminated.

If the SRBR is eliminated, the actuarial liability (AL) and the unfunded actuarial liability (UAL) would be reduced by the amount held in the SRBR, approximately \$32.5 million. There is no change to the assets held by the Plan, but the portion in the SRBR would no longer be used to provide additional retirement benefits. The table below shows a summary of the key valuation results with and without the SRBR.

Summary of Key Valuation Results		
	Without SRBR	With SRBR
Valuation Date	6/30/2012	6/30/2012
Discount Rate	7.25%	7.25%
Actuarial Liability (AL)	\$ 3,397.8	\$ 3,430.3
Actuarial Value of Assets (AVA)	\$ 2,703.5	\$ 2,703.5
Unfunded Actuarial Liability (UAL)	\$ 694.3	\$ 726.8
AVA Funded Ratio	79.6%	78.8%
Market Value of Assets (MVA)	\$ 2,578.9	\$ 2,578.9
MVA Funded Ratio	75.9%	75.2%

*Dollar amounts in millions*



Under the current funding policy, this reduction in UAL would be amortized over 16 years as a level percentage of projected payroll, reducing the City's contribution rate by approximately 1.5% of payroll. In addition to the reduction in UAL, the normal cost charge for the expected amount transferred to the SRBR each year (0.22% of assets) would no longer apply, reducing the City's contribution rate by an additional 3.1% of payroll. In aggregate, these changes reduce the City's contribution as of the beginning of the year by approximately \$8.4 million. The table below summarizes the contribution rates and amounts for the Fiscal Year Ending June 30, 2014 both with and without the SRBR.

Summary of Key Valuation Results		
Fiscal Year Ending	Without SRBR 6/30/2014	With SRBR 6/30/2014
Aggregate Contribution Rates		
Member		
Normal Cost Rate	11.6%	11.6%
UAL Rate	0.1%	0.1%
Total Member Rate	11.7%	11.7%
City		
Normal Cost Rate	31.6%	34.7%
UAL Rate	34.3%	35.8%
Total Member Rate	65.9%	70.5%
Expected Payroll	\$ 188.0	\$ 188.0
City Contribution Amounts		
Beginning of Year	\$ 119.6	\$ 128.0
Middle of Year	\$ 123.8	\$ 132.6

*Dollar amounts in millions*

The table below provides additional detail of the contribution rates separately for Police and Fire both with and without the SRBR. It should be noted that there is no impact to employee contribution rates.

Summary of Contribution Rates						
	Without SRBR			With SRBR		
	Fiscal Year 2013-14			Fiscal Year 2013-14		
	Member	City	Total	Member	City	Total
<b>Police</b>						
Normal Cost	11.53%	31.54%	43.06%	11.53%	34.66%	46.19%
UAL	0.12%	33.78%	33.90%	0.12%	35.32%	35.45%
Total	11.65%	65.31%	76.96%	11.65%	69.99%	81.63%
<b>Fire</b>						
Normal Cost	11.62%	31.75%	43.37%	11.62%	34.87%	46.49%
UAL	0.10%	35.05%	35.14%	0.10%	36.59%	36.69%
Total	11.72%	66.79%	78.51%	11.72%	71.47%	83.18%

In preparing this letter, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23. This information is summarized in the full actuarial valuation report along with a summary of the methods, assumptions and plan provisions used in this analysis.

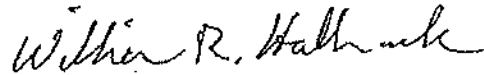
I hereby certify that, to the best of my knowledge, this letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. I am not an attorney and our firm does not provide any legal services or advice.

This letter was prepared exclusively for the City of San José Police & Fire Department Retirement Plan for the purpose described herein. This letter is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Members of the Board  
December 21, 2012  
Page 4

If you have any questions or need any additional information, please let us know.

Sincerely,  
Cheiron



William R. Hallmark, ASA, FCA, EA, MAAA  
Consulting Actuary

cc: Donna Busse  
Gene Kalwarski  
Joshua Davis





CLASSIC VALUES. INNOVATIVE ADVICE.

Board of Administration  
San Jose Federated  
City Employees' Retirement System

June 30, 2012 OPEB  
Actuarial Valuation Results

January 17, 2013  
Bill Hallmark, ASA, FCA  
Michael Schionning, FSA



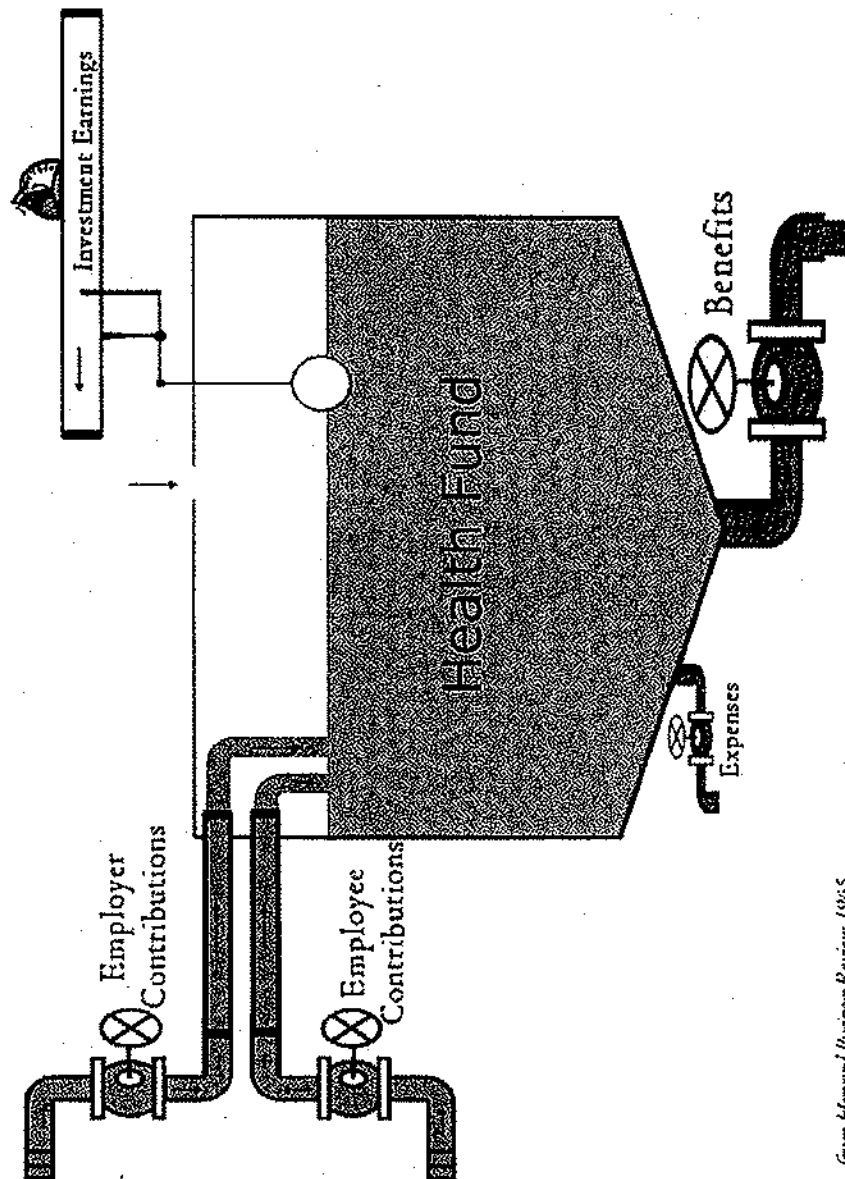
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# Agenda

- Introduction
- Funding Valuation Results
- Accounting (GASB) Valuation Results
- Projections

# Introduction



*from Harvard Business Review 1985*

# Introduction

- June 30, 2012 valuation results determine:
  - Contribution rates for FYE 2014
  - GASB reporting for FYE 2013
- Final results differ slightly from preliminary results presented in December due to:
  - Change in plan election assumption
  - Technical corrections
- The primary drivers of change since the last valuation are the plan changes effective January 1, 2012 and January 1, 2013

# Funding Summary

- OPEB Plan funding policy is based on negotiated contracts between the City and its labor unions
- The fiscal year ending June 30, 2014, the fiscal year for which this valuation determines contribution rates, is the first year for which the agreements call for contributing the full ARC
  - We understand that the labor contracts are currently under negotiation. Our valuation continues to follow the recently expired agreements; any changes to the negotiated terms may require an update to the funding valuation results as well as projections

# Funding Valuation Results

Table I-1 Summary of Key Valuation Results			
Funding Valuation Basis			
Valuation Date	6/30/2012	6/30/2011	
Discount Rate	7.50%	7.50%	
Actuarial Liability (AL)	\$ 742,466	\$ 935,960	
Assets	137,798	135,454	
Unfunded Actuarial Liability (UAL)	\$ 604,668	\$ 800,505	
Funding Ratio	19%	14%	
Fiscal Year Ending	6/30/2014	6/30/2013	
Member Contribution Rate	10.74%	7.26%	
City Contribution Rate	11.93%	7.91%	
City Contribution Amount (beginning of year)	\$ 26,833	\$ 18,033	

*Dollar amounts in thousands*

- UAL decreased almost \$200 million since prior valuation
- Increase in contribution rates is due to expiration of caps applicable during phase-in period

# Funding Valuation Results

Table III-4 Contribution Rates - Funding Basis			
	FYE 2014		FYE 2013
	Medical	Dental	Total
Normal Cost	5.37%	0.71%	6.08%
Amortization Payment	14.67%	1.92%	16.59%
Total	20.04%	2.63%	22.67%
Contribution Amount			
Employees	10.02%	0.72%	10.74%
City	10.02%	1.91%	11.93%
Total	20.04%	2.63%	22.67%
			30.22%

- Rates shown for FYE 2013 are prior to the application of transition period caps
- Actual rates for FYE 2013 were 7.26% for employees and 7.91% for the City

# Accounting Valuation Results

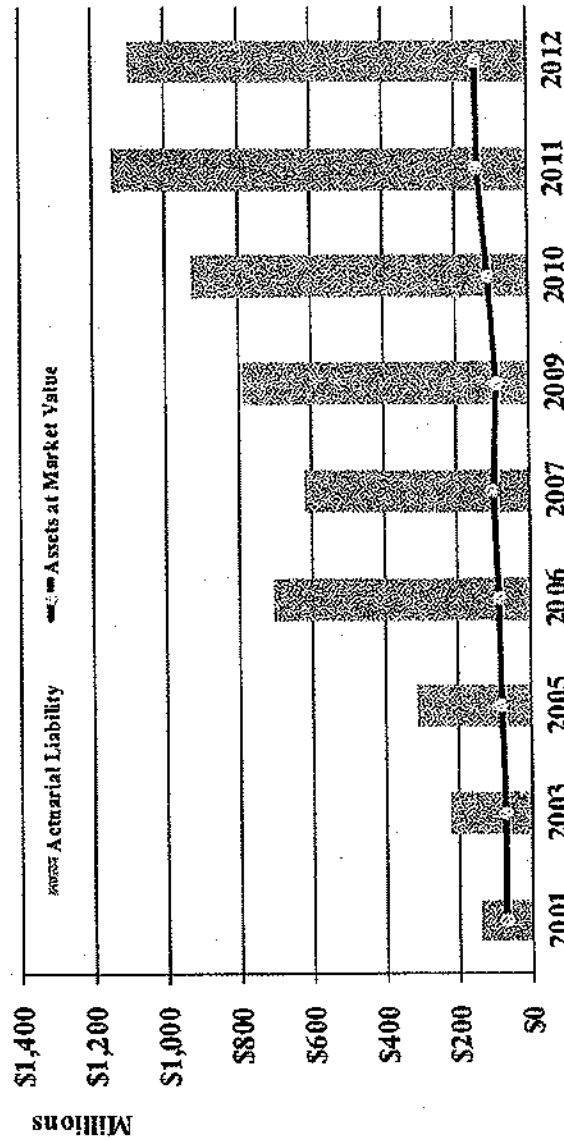
**Table I-1**  
**Summary of Key Valuation Results**  
**GASB Valuation Basis**

Valuation Date	6/30/2012	6/30/2011
Discount Rate	4.80%	6.10%
Actuarial Liability (AL)	\$ 1,096,620	\$ 1,145,359
Assets	137,798	135,454
Unfunded Actuarial Liability (UAL)	\$ 958,822	\$ 1,009,905
Funding Ratio	13%	12%
Fiscal Year Ending	6/30/2013	6/30/2012
City ARC		
-- if paid as a percent of pay	25.38%	29.26%
-- if paid as a dollar amount (middle of year)	\$ 57,331	\$ 66,991

- UAL decreased about \$50 million since prior valuation
- Reduction due to plan changes offset by decrease in blended discount rate

# Accounting Valuation Results

The City of San Jose Federated Postemployment Healthcare Plan



\* 2006 was the first GASB 43/45 valuation.

	2001	2003	2005	2006	2007	2009	2010	2011	2012
Funded Ratio	48.2%	34.2%	24.6%	11.6%	15.7%	10.7%	11.7%	11.8%	12.6%
UAL/(Surplus) (in millions)	\$ 72.4	\$ 145.0	\$ 235.7	\$ 621.7	\$ 520.1	\$ 710.9	\$ 818.4	\$1,009.9	\$ 958.8
Discount Rate	8.25%	8.25%	5.60%	5.60%	6.60%	6.70%	6.71%	6.10%	4.80%



# Changes Since Prior Valuation

Table IV-5	
Reconciliation of Actuarial Liability - GASB Basis	
Actuarial Liability at 6/30/2011	\$ 1,145,359
Normal Cost	25,496
Expected Benefit Payments	(35,565)
Interest	69,564
Expected Actuarial Liability at 6/30/2012	\$ 1,204,855
Actuarial Liability at 6/30/2012	1,096,620
(Gain) or Loss	\$ (108,235)
((Gain) or Loss due to:	
Demographic experience	27,919
Plan changes effective 1/1/2012	(154,239)
Change in claims assumptions	(117,528)
Plan changes effective 1/1/2013	(60,380)
Change in discount rate	195,993
Total changes	(108,235)

*Dollar amounts in thousands*

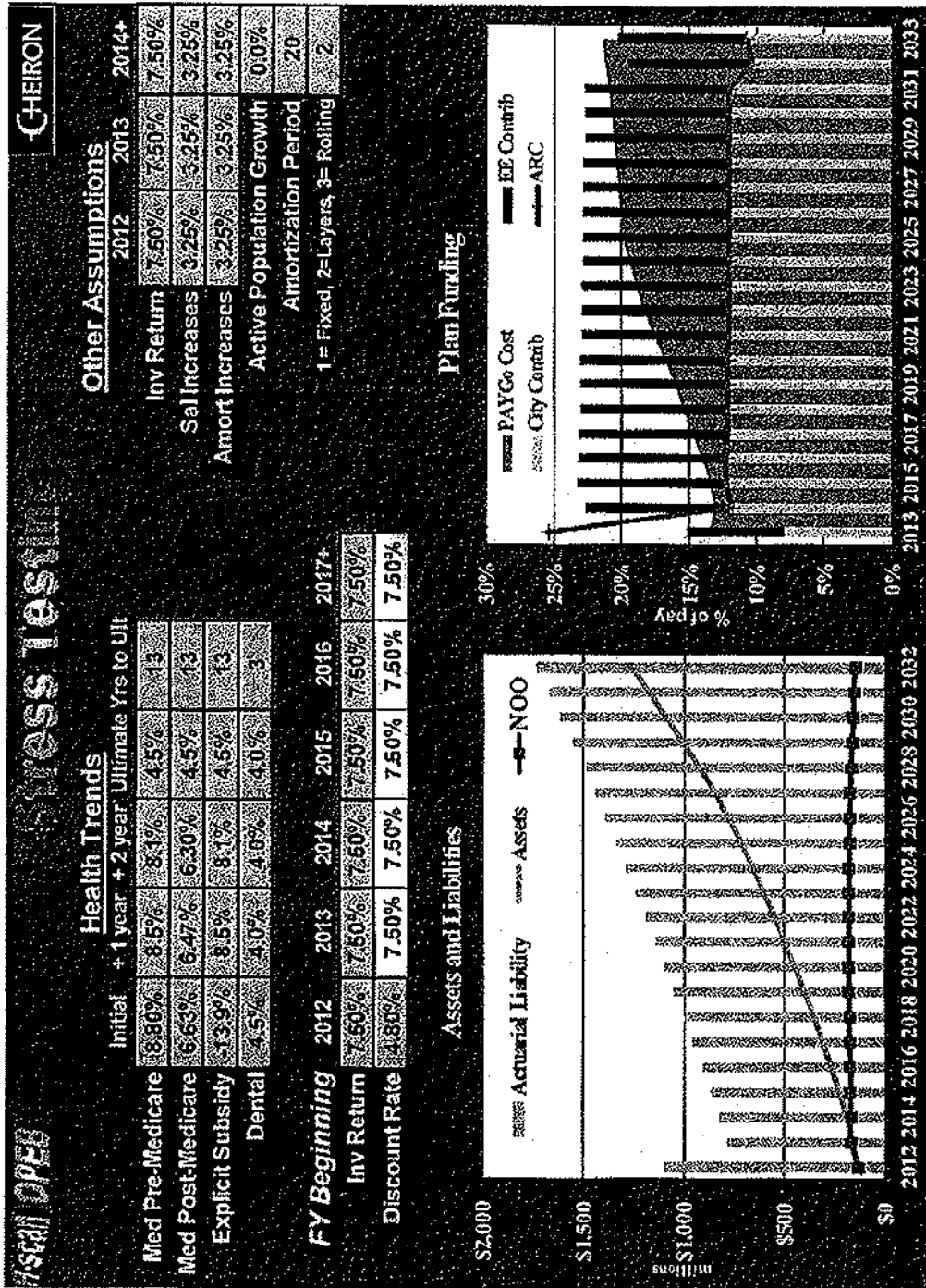
# Changes Since Prior Valuation

- Plan changes made effective January 1, 2012:
  - Pre-Medicare plans with \$10 co-pays eliminated
  - Co-pays increased to \$25 for Medicare Eligible members in Kaiser plan
- Plan changes made effective January 1, 2013:
  - New lowest cost plan added – Kaiser \$1,500 Deductible HMO (DHMO)
  - New lower-cost pre-Medicare plans added

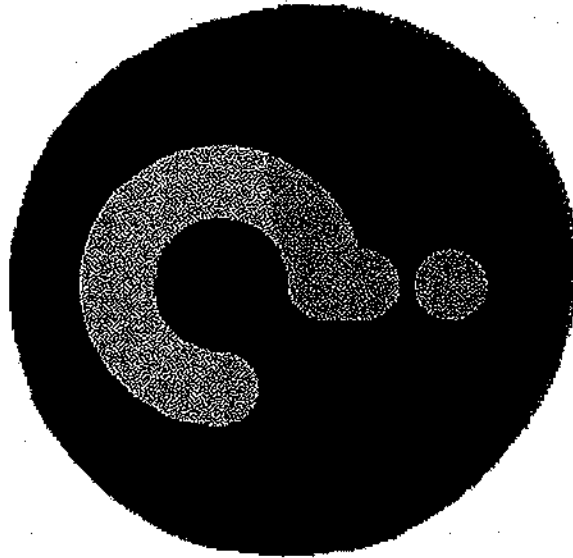
# Accounting Valuation Results

Table IV-4 GASB ARC			
Fiscal Year Ending	6/30/2013	6/30/2012	
Discount Rate	4.80%	6.10%	
Total Normal Cost	\$ 26,741,618	\$ 25,495,975	
UAL Amortization	46,986,739	56,398,638	
Total Cost	\$ 73,728,357	\$ 81,894,613	
Employee Contributions	16,397,374	14,903,760	
Total ARC	\$ 57,330,983	\$ 66,990,854	

# Projections

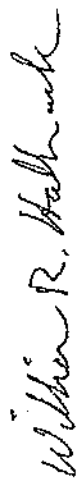



# Questions



# Required Disclosures

- The purpose of this presentation is to present selected results of the June 30, 2012 actuarial valuation for the City of San Jose's Federated Postemployment Healthcare Plan.
- This presentation is for the use of the Board of Administration of the San Jose Federated City Employees Retirement System and its auditors. Any other user is not an intended user and is considered a third party. This presentation is not intended to benefit any third party and Cheiron assumes no duty or liability to any such party.
- In preparing the valuation, we relied without audit, on information (some oral and some written) supplied by the City of San Jose. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23. Please refer to the full June 30, 2012 actuarial valuation report for a complete description of the plan provisions, assumptions, methods and a summary of the data used in the actuarial valuation.
- We hereby certify that, to the best of our knowledge, this presentation has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

  
William R. Hallmark, ASA, FCA  
Consulting Actuary

  
Michael W. Schionning, FSA  
Principal Consulting Actuary





CLASSIC VALUES. INNOVATIVE SERVICE.

Board of Administration  
City of San José Police and Fire  
Department Retirement System

June 30, 2012 OPEB  
Actuarial Valuation Results



February 7, 2013  
Bill Hallmark, ASA, FCA  
Michael Schionning, FSA

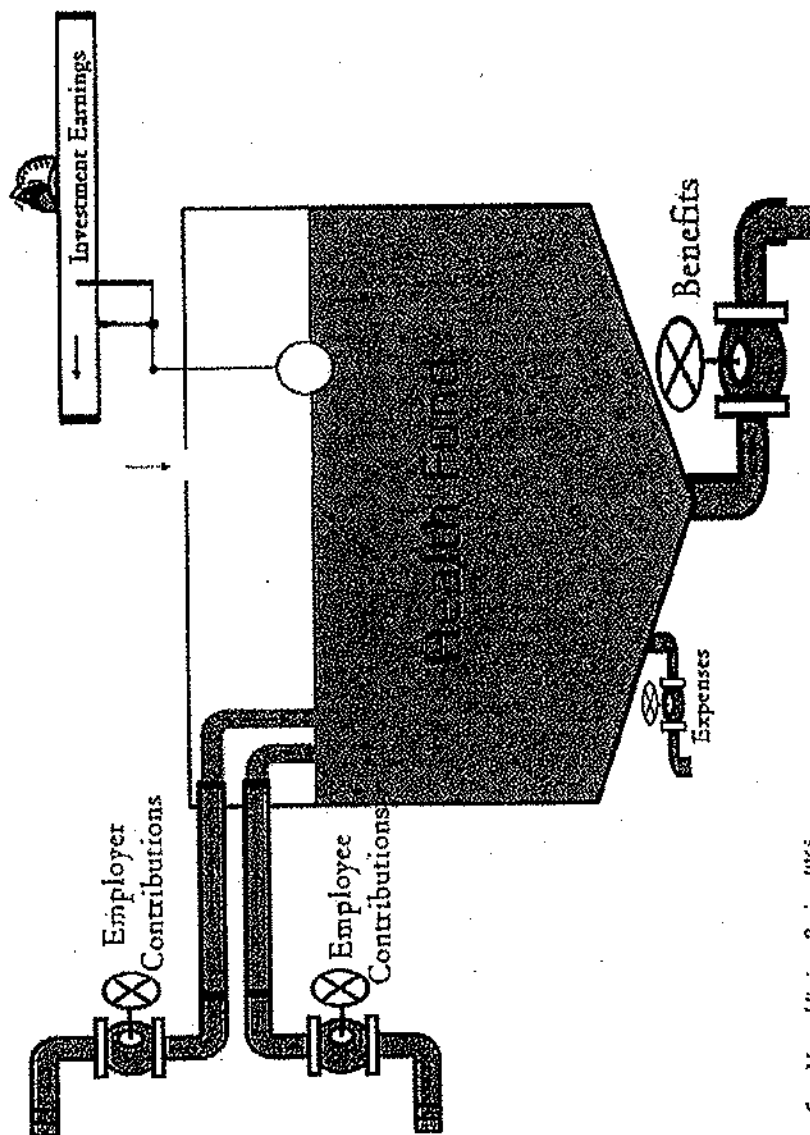
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# Agenda

- Introduction
- Funding Valuation Results
- Accounting (GASB) Valuation Results
- Projections

# Introduction



from Harvard Business Review 1965

# Introduction

- June 30, 2012 valuation results determine:
  - Contribution rates for FYE 2014
  - GASB reporting for FYE 2013
- The primary drivers of changes since the last valuation are the plan changes effective January 1, 2012 and January 1, 2013

# Funding Summary

- OPEB Plan funding policy is based on negotiated contracts between the City and the Police and Fire unions
- Currently in a 5-year transition period, during which the funding basis will gradually change from the prior (10-year cash flow) method to actuarial funding
- June 30, 2012 valuation determines contribution rates for the fiscal year ending June 30, 2014, which is the
  - Final year in the transition period for Police; and
  - Third year in the transition period for Fire
- Beyond the 5-year period, caps on annual increases in rates and the overall rates continue to apply

# Funding Valuation Results

Table I-1  
Summary of Key Valuation Results  
(dollars in thousands)

Funding Valuation Basis<sup>1</sup>

Valuation Date	6/30/2012	6/30/2011
Discount Rate	7.25%	7.50%
Actuarial Liability (AL)	596,223	657,472
Actuarial Value of Assets (AVA)	66,385	60,709
Unfunded Actuarial Liability (UAL)	529,839	596,764
AVA Funding Ratio	11.1%	9.2%
Market Value of Assets (MVA)	62,978	59,669
Unfunded Liability (MVA basis)	533,245	597,803
MVA Funded Ratio	10.6%	9.1%
Fiscal Year Ending	6/30/2014	6/30/2013
Member Contribution Rate	8.69%	7.48%
City Contribution Rate	9.42%	8.11%
City Contribution Amount (BOY)	17,073	14,922

<sup>1</sup> Excludes implicit subsidy

Dollar amounts in thousands

- UAL decreased almost \$70 million since prior valuation
- Contribution rates for FYE 2014 reflect maximum increase allowed by current agreements

# Funding Valuation Results

Table III-7 Police Contribution Rates --Funding Basis Reflecting Caps			
	Medical	Dental	Total
Calculated FYE 2014 Contribution Rate			
Member	12.14%	0.60%	12.74%
City	<u>12.15%</u>	<u>1.80%</u>	<u>13.95%</u>
Total	24.29%	2.40%	26.69%
FYE 2013 Contribution Rates			
Member	7.90%	0.36%	8.26%
City	<u>7.90%</u>	<u>1.06%</u>	<u>8.96%</u>
Total	15.80%	1.42%	17.22%
Capped FYE 2014 Contribution Rates			
Member	9.11%	0.40%	9.51%
City	<u>9.12%</u>	<u>1.19%</u>	<u>10.31%</u>
Total	18.23%	1.59%	19.82%

# Funding Valuation Results

Table III-8 Fire Contribution Rates --Funding Basis Reflecting Phase-In and Caps			
	Medical	Dental	Total
Old Funding Basis	10.33%	1.34%	11.67%
New Funding Basis	22.41%	2.32%	24.73%
Percentage New	60%	60%	60%
Phased-In FYE 2014 Contribution Rates			
Member	8.79%	0.48%	9.27%
City	8.79%	1.45%	10.24%
Total	17.58%	1.93%	19.51%
FYE 2013 Contribution Rates			
Member	5.85%	0.26%	6.11%
City	5.85%	0.77%	6.62%
Total	11.69%	1.03%	12.73%
Capped FYE 2014 Contribution Rates			
Member	7.05%	0.30%	7.36%
City	7.05%	0.91%	7.97%
Total	14.11%	1.21%	15.32%

# Accounting Valuation Results

- UAL decreased slightly since prior valuation
- Gains due to plan changes offset by losses due to lower blended discount rate

Table I-1 Summary of Key Valuation Results (dollars in thousands)			
GASB Valuation Basis			
Valuation Date	6/30/2012	6/30/2011	
Discount Rate	4.40%	5.70%	
Actuarial Liability (AL)	\$ 997,321	\$ 1,003,795	
Actuarial Value of Assets (AVA)	66,385	60,709	
Unfunded Actuarial Liability (UAL)	\$ 930,936	\$ 943,087	
AVA Funding Ratio	6.7%	6.0%	
Market Value of Assets (MVA)	\$ 62,978	\$ 59,669	
Unfunded Liability (MVA basis)	934,343	944,126	
MVA Funded Ratio	6.3%	5.9%	
Fiscal Year Ending	6/30/2013	6/30/2012	
City ARC			
-- if paid as percent of pay	29.70%	32.55%	
-- if paid as dollar amount (MOY)	\$ 55,824	\$ 62,079	
Expected / Actual City Contribution <sup>1</sup>	\$ 15,419	\$ 21,205	
Expected / Actual Net Benefit Payments <sup>1</sup>	\$ 23,355	\$ 28,479	

<sup>1</sup> Includes implicit subsidy

Dollar amounts in thousands



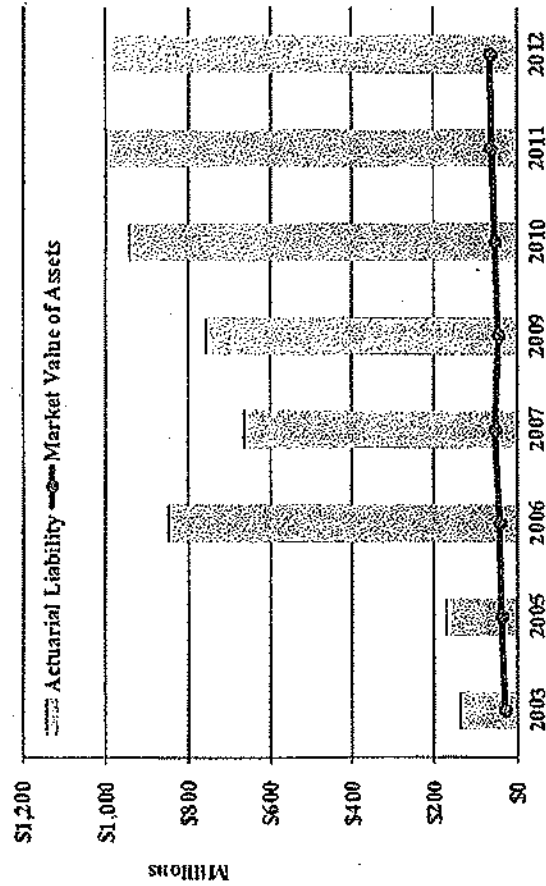
# Accounting Valuation Results

Table IV-1 Development of Blended Discount Rate	
<b>Expected FY2013 Contributions</b>	
Member Contribution Rate	7.44%
City Contribution Rate	8.07%
Implicit Subsidy Rate	0.09%
<b>Total Contribution Rate</b>	<b>15.60%</b>
<b>FY2013 Full ARC</b>	
Normal Cost (Middle of Year)	8.33%
Amortization of UAL	17.10%
Total ARC as % of pay	25.44%
<b>Pay-as-you-go Costs</b>	
Pay-as-you-go as % of pay	12.43%
Contribution in Excess of Pay-Go	3.17%
Full ARC in Excess of Pay-Go	13.01%
Weight to System Return	24.39%
<b>Expected Returns</b>	
Expected Return on Plan Assets	7.25%
Expected Return on City Assets	3.50%
<b>Blended Discount Rate</b>	<b>4.40%</b>

- Blended discount rate for GASB valuation = 4.4% compared to 5.7% last year
- Determined based on new method adopted in December

# Accounting Valuation Results

City of San José Police and Fire Department Postemployment Healthcare



\* 2006 was the first GASB 43/45 valuation.

	2003	2005	2006	2007	2009	2010	2011	2012
Funded Ratio	24.1%	20.9%	4.5%	6.8%	7.3%	6.0%	6.0%	6.7%
UAL/(Surplus)	\$ 103.7	\$ 136.6	\$ 812.8	\$ 620.8	\$ 706.0	\$ 706.0	\$ 943.1	\$ 930.9
(in millions)								
Discount Rate	8.00%	8.00%	5.30%	6.40%	6.70%	5.70%	5.70%	4.40%

# Changes Since Prior Valuation

Table IV-4 Reconciliation of Actuarial Liability -- GASB Basis	
Actuarial Liability as of June 30, 2011	\$ 1,003,795
Normal Cost	29,996
Benefit Payments	(30,733)
Interest	57,196
Expected Actuarial Liability, June 30, 2012	\$ 1,060,254
Actuarial Liability as of June 30, 2012	997,321
Gain or (Loss)	\$ (62,933)
Changes due to:	
Demographic experience	\$ (4,760)
Plan changes effective 1/1/2012	(109,450)
Change in claims assumptions	(49,696)
Plan changes effective 1/1/2013	(86,497)
Change in discount rate	187,470
Total Changes	\$ (62,933)

*Dollar amounts in thousands*

# Accounting Valuation Results

Table IV-3

GASB ARC

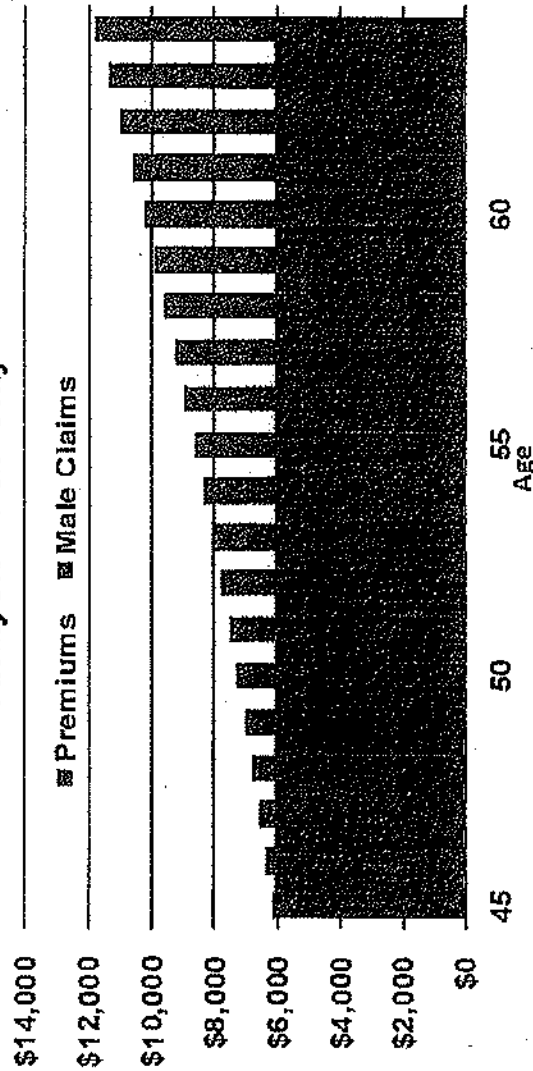
Fiscal Year Ending	6/30/2013		6/30/2012	
Discount Rate	4.40%		5.70%	
Total Normal Cost	\$	33,961,961	\$	29,995,849
UAL Amortization		35,846,961		41,947,828
Total Cost	\$	69,808,922	\$	71,943,677
Employee Contributions		13,984,443		11,561,673
Total ARC	\$	55,824,479	\$	62,079,043

# Implicit Subsidy

- In prior valuations, estimated implicit subsidy was determined based solely on the Police and Fire membership
- In reality, medical premiums are developed collectively for Federated and Police and Fire members, so that all members pay the same premiums
- The current valuation reflects joint development, resulting in a much smaller estimated implicit subsidy for the Police and Fire Plan:
  - Estimated implicit subsidy was \$4.75M for FYE 2012
  - Estimated implicit subsidy is \$0.17M for FYE 2013

# Implicit Subsidy - PPO

Kaiser Retiree Claims vs. Premiums  
Analysis - P&F Only

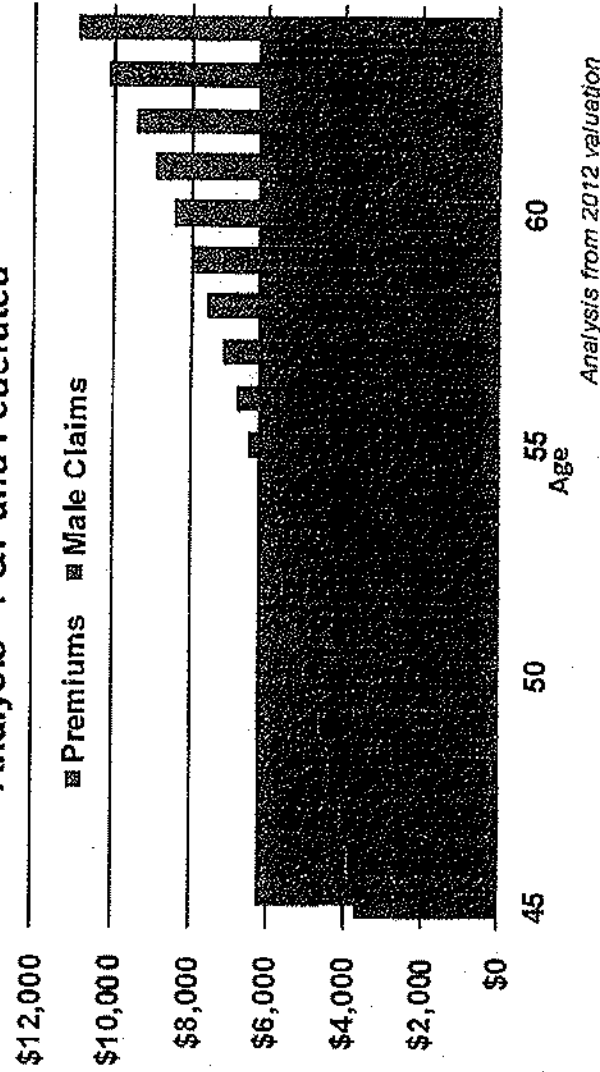


Analysis from 2010 valuation

- With the analysis solely on the Police and Fire population, the premium is less than the claims for virtually all retirees, resulting in a large implicit subsidy

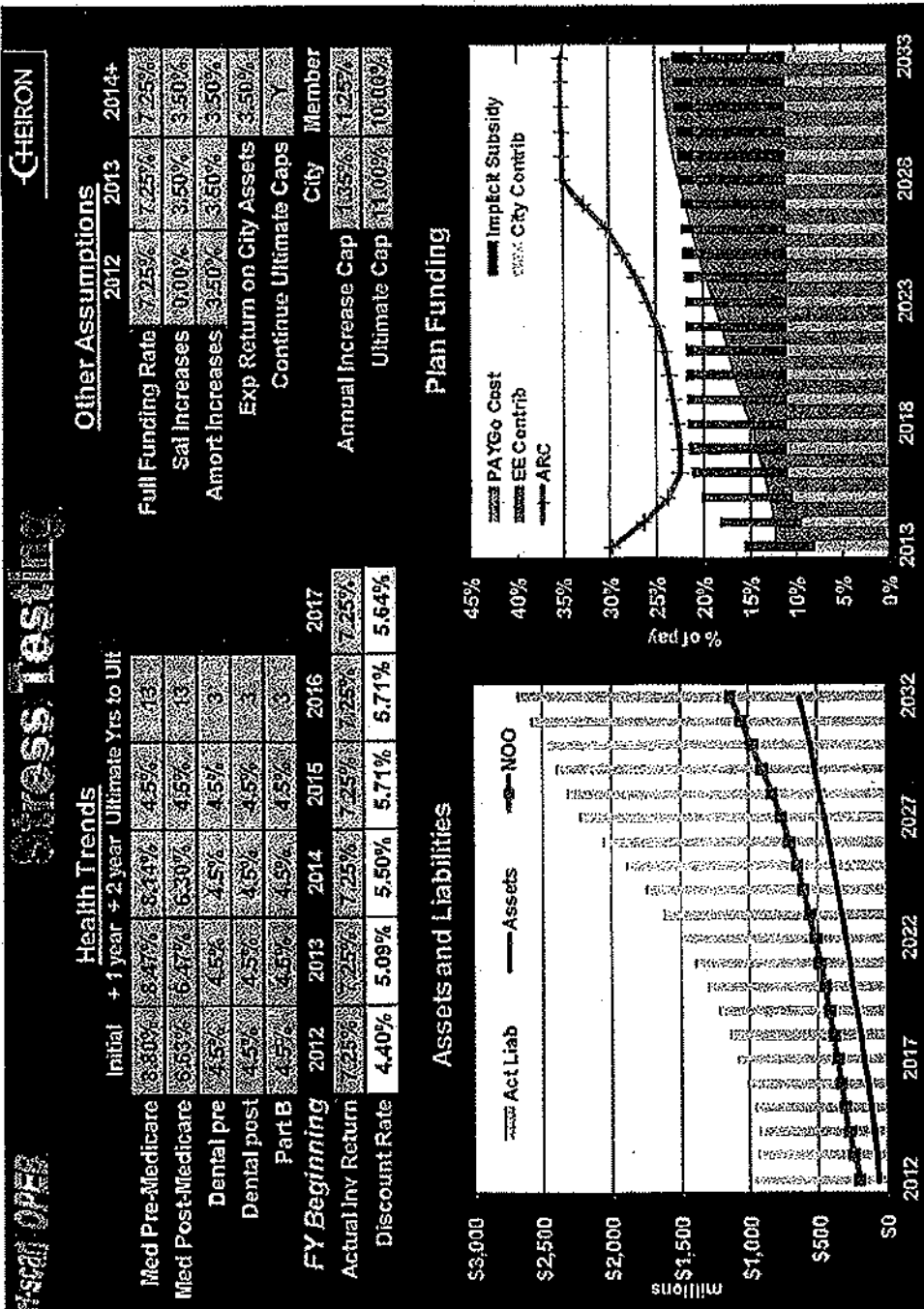
# Implicit Subsidy - Kaiser

Kaiser Retiree Claims vs. Premiums  
Analysis - P&F and Federated



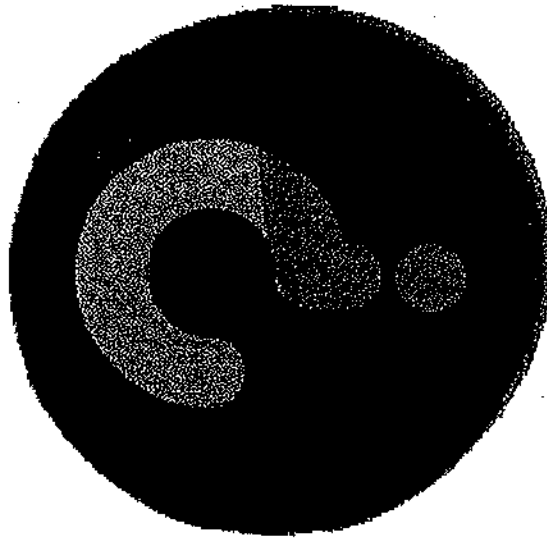
- With the analysis combining Police and Fire with Federated, claims above and below the premium are offsetting, resulting in a smaller implicit subsidy

# Projections



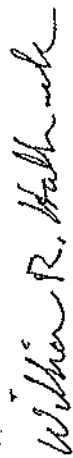



# Questions



# Required Disclosures

- The purpose of this presentation is to present selected results of the June 30, 2012 actuarial valuation for the City of San Jose's Police and Fire Department Postemployment Healthcare Plan.
- This presentation is for the use of the Board of Administration of the City of San Jose Police and Fire Department Retirement System and its auditors. Any other user is not an intended user and is considered a third party. This presentation is not intended to benefit any third party and Cheiron assumes no duty or liability to any such party.
- In preparing the valuation, we relied without audit, on information (some oral and some written) supplied by the City of San Jose. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23. Please refer to the full June 30, 2012 actuarial valuation report for a complete description of the plan provisions, assumptions, methods and a summary of the data used in the actuarial valuation.
- We hereby certify that, to the best of our knowledge, this presentation has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

  
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